LIBRARY
RECEIVED

BLISHED QUARTERLY

AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

CONTENTS

LIBRARY
BUREAU OF
MAY 1 1934
DEPARTMENT OF AGRICULTURE

Market Price

Percentage Leases

Industrial Property

Tables and Formulas

The Valuation of Farms

Reproduction Cost

Appraising for Taxation

Liability of the Appraiser

COMPLETE YOUR LIBRARY

A few copies of earlier issues of *The Journal of the American Institute of Real Estate Appraisers* are available.

VOL. I, NO. 1—OCTOBER, 1932
(Out of print)

VOL. I, NO. 2—JANUARY, 1933 . . . $1.25

What About Rents?	*Delbert S. Wenzlick*
Relation of Value to the Purpose of an Appraisal	*Ivan A. Thorson*
Condemnation Appraisals	*Harry E. Gilbert*
Influences of Real Estate Taxes on Value	*George L. Schmutz and Loring O. McCormick*
Appraisal of Industrial Property	*W. G. Burchfield*
Corner Influence	*Frederick M. Babcock*
Valuation of Gas Stations	*James D. Henderson*
Liability of the Appraiser	*J. George Head*
Severance Damage to an Apartment Site	*Ayers J. duBois*

VOL. I, NO. 3—APRIL, 1933 . . . $1.25

A New Approach to Urban Land Valuations	*Walter R. Kuehnle*
The Modern Percentage Lease	*Capt. Henry Wolfson*
Theoretical vs. Practical Appraising	*Ayers J. duBois*
The Appraiser's Duties	*Francis K. Stevens*
The Real Estate Cycle	*John G. Clark*
Management	*Nathan Libott*
Building for the Ages	*Harry G. C. Williams*
Appraisal of a Business Property	*Max Tieger*

VOL. I, NO. 4—JULY, 1933 . . . $1.25

The Meaning of Value	*Peter Hanson*
Appraisal Practices	*Arthur J. Mertzke*
Fundamental Economic Concepts	*George L. Schmutz and Loring O. McCormick*
Regaining Confidence of American Investors	*William W. Butts*
An Appraiser's Proposals	*Roy J. Burroughs*
Financial History of a Chicago Property	*John P. Hooker*
New Problems for the Appraiser	*Stanley L. McMichael*
Rules of Professional Ethics.	

VOL. II, NO. 1—OCTOBER, 1933 . . . $1.25

Valuation Principles as Applied to Homes	*Arthur J. Mertzke*
106 Value Factors in Residential Property	*Philip W. Kniskern*
Appraisal of Single Family Homes	*Harry S. Cutmore*
Residential Property	*Ivan A. Thorson*
Residential Appraisal Manuals	*Joseph B. Hall*
Current Appraisal Technique	*Henry Musch, Jr.*
What Price the American Home?	*Charles B. Shattuck*
Speculation in Suburban Lands	*Ernest M. Fisher*
Depreciation, Obsolescence, Lack of Utility	*K. Lee Hyder*
The Doctrine of Surplus Productivity	*George L. Schmutz and Loring O. McCormick*
Industrial Property	*Percy A. Gaddis*

VOL. II, NO. 2—JANUARY, 1934 . . . $1.25

Seven Ways of Using the Capitalization Method	*Cuthbert E. Reeves*
Valuation of Vacant Lots for Tax Purposes	*Paul Schlagenhauf*
Economic Factors	*George L. Schmutz and Loring O. McCormick*
Changing Aspects of Real Estate Appraising	*Ed. W. Hopkins*
Valuation of Farm Homes	*C. B. Jennett*
The Use of Tables and Formulas in Real Estate Appraisals (I)	*Ivan A. Thorson*
Shall Values Be Based on Past, Present or Future?	*Percival V. Bowen*
A Condemnation Appraisal	*Lewis R. Smith*

●

Address orders and make checks payable to: The Journal of the American Institute of Real Estate Appraisers, 59 East Van Buren Street, Chicago, Illinois.

THE JOURNAL OF THE

AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

of the National Association of Real Estate Boards

Volume II. APRIL, 1934 Number 3

The Institute is not responsible for statements made by authors of papers printed herein, nor for other statements except as approved by its Governing Council.

Published quarterly by the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards at 59 East Van Buren Street, Chicago, Ill.

Entered as second class matter January 17, 1933, at the post office at Chicago, Illinois, under the act of March 3, 1879.

CONTENTS

Factors Affecting Market Price	George L. Schmutz, M. A. I., and Loring O. McCormick	181
Land Appraisals Abroad	Charles L. Stewart	189
Unit Cost Factors	Hiram U. Welch	194
The New Deal in Appraising	Bracton Goldstone, M.A.I	199
Percentage Lease Rates	K. Lee Hyder, M.A.I.	205
Appraisals Involving Percentage Leases	Stanley Roe	216
Industrial Property	Arthur L. Layden, M.A.I.	219
Finding Reproduction Cost	H. Vandervoort Walsh	228
The Use of Tables and Forumlas (II)	Ivan A. Thorson, M.A.I.	232
A Yardstick of Value	Milton W. Moore	238
How to Assess Real Estate on Income	Philip H. Cornick	241
Relation of Management to Value	George H. Gray, M.A.I.	244
Comment and Discussion		247
Court Decisions	Andrew C. Hamilton	257
Standards of Practice for Rural Appraisers		260
Digest of Minutes		265
Book Reviews		267
Current Articles		269
New Members		270
Officers of Local Chapters		270
Officers and Committees		271
Roster of Members		272

Copyright: Contents of this issue are covered by copyright, 1934. All rights reserved.

PUBLICATIONS COMMITTEE AND EDITORIAL STAFF

Mark Levy, Editor-in-Chief
Harry Grant Atkinson, Managing Editor
Ayers J. du Bois
Hollis Bush
John P. Hooker
Carlton Schultz
Philip W. Kniskern, Ex-Officio

Subscription Rates: $5.00 a year; $1.25 a copy. Remittances may be made by personal checks, drafts, post office or express money orders, payable to the National Association of Real Estate Boards, Chicago, Illinois.

Printed in the United States of America.

Contributors to this Issue Include

Philip H. Cornick, Staff Member, Institute of Public Administration, New York, N. Y.

Bracton Goldstone, M. A. I., New York City, N. Y.

George H. Gray, M. A. I., Brooklyn, N. Y.

Andrew C. Hamilton, Member of Illinois Bar, Kirkland, Fleming, Green and Martin, Chicago, Ill.

K. Lee Hyder, M. A. I., The American Appraisal Company, Milwaukee, Wis.

Arthur L. Layden, M. A. I., Los Angeles, Calif.

Loring O. McCormick, Los Angeles, Calif.

Milton W. Moore, Appraisal Engineer, Department of Assessor, Los Angeles County, Los Angeles, Calif.

Stanley Roe, Mark Levy and Brother, Chicago, Ill.

George L. Schmutz, M. A. I., Los Angeles, Calif.

C. L. Stewart, Department of Agricultural Economics, University of Illinois, Urbana, Ill.

Ivan A. Thorson, M. A. I., Ivan A. Thorson Organization, Los Angeles, Calif.

H. Vandervoort Walsh, Craft, Gill and Walsh, Architects, New York, N. Y.

Hiram U. Welch, Assessor, Multnomah County, Portland, Oregon.

♣ ♣ ♣

Articles Soon to Appear in this Journal Include

The Effect of the New Deal on Real Estate.....Delbert S. Wenzlick

Analysis of Office Building Expense.....George A. Kuhn, M.A.I.

More About Economic Factors....George L. Schmutz, M. A. I., and Loring O. McCormick

Depreciation Allowance .....Frederick M. Babcock

Valuation of Farm Lands.....W. S. Guilford, M.A.I.

Appraisal of Grain Elevators.....A. P. Allingham, M.A.I.

Appraisal of Switchtrack Properties.....Louis B. Beardslee

The Appraiser's Data Files.....A. N. Gitterman, M.A.I.

The Management Factor.....William H. Ballard, M.A.I.

The Appraisal of Theaters.....Leon Fleischmann

Analysis of the Competitive Factor in the Valuation of Income Property.....
.....Carlton Schultz, M.A.I.

Essentials of Mortgage Appraising.....Maurice F. Reidy, M.A.I.

Appraising Central Business Property for Tax Purposes.....Walter R. Kuehnle, M.A.I.

THE JOURNAL OF THE
AMERICAN INSTITUTE OF
REAL ESTATE APPRAISERS
of the National Association of Real Estate Boards

APRIL, 1934

The Factors Affecting Market Price

By GEORGE L. SCHMUTZ, M.A.I.,
and LORING O. MCCORMICK

THE purpose of this discussion will be to point out how Market Price depends upon Rents, and how Rents depend upon Commodity Prices, and how Commodity Prices depend upon Credit and Production, and how Credit depends upon Money and Its Effectiveness, while Production depends upon Profit to Industry, etc.

Thus it will be shown that the Market Price of real estate depends upon such factors as Industrial Activity, the Quantity and Velocity of Money, etc., and that any factor affecting any of these will at the same time affect the Market Price of Property.

The purpose of valuation procedure is to estimate the "Market Price," oftimes erroneously called Market Value, or to estimate the "Warranted Price" possessed by realty (or any commodity) as of the present, or as of some future date.

Knowledge of Fundamentals Necessary

Unfortunately, appraisal literature has dealt with valuation procedure under so-called "normal" or static conditions, which conveys no intelligence regarding procedure during times of economic instability, such as during "booms" or "depressions." Literature now extant has exhaustively discussed various types of appraisals and procedures, but has carefully ignored those factors responsible for commodity or realty price changes and hence has avoided any exposition of fundamentals.

There are two principal schools of thought in appraisal procedure—"Valuation by Reproduction Cost" and "Valuation by the Capitalization" of net income. It is a demonstrable fact that the results found by these methods will agree only during times of so-called "normality" or economic stability, or, as the economist would say, when the factors in production are in structural alignment or balance. At other times the results of these two appraisal processes will not agree, and *neither will be right*. Their reconciliation can be found only through an application of fundamental economic data.

Definition of Terms

"Market Price" is the quantity of money, a property will command in exchange, e.g., 6,000 dollars.

"Market Value" is the quantity of commodities a property will command in exchange at the moment, e.g., 6,000 units of commodities, such as 6,000 bushels of wheat.

"Warranted Price" is that sum of money, expressed in terms of dollars, that a person would be warranted in paying for the future benefits (net income), e.g., 6,000 dollars.

This is the fourth of a series of article by Messrs. Schmutz and McCormick on the Economic Approach to Valuation Procedure.—Ed.

"Warranted Value" is that sum of money, expressed in dollars, that a person would be warranted in paying for the future benefits (net income), bearing in mind the future purchasing power of money, e.g., $5,500.

Much confusion exists as to what constitutes "Market Value." For the purpose of clarifying this misunderstanding, there has been set up the following definition:

> The Market Value of a property at a designated date is that competitively established price which at that date represents the present worth of all the rights to future benefits arising from ownership.

The economist cannot agree with this definition for two reasons: first, because the definition proposes to define Market *Price* rather than Market *Value*, and secondly, because it is seldom that a competitively established price ever represents the present worth of future benefits. Illustrations of the exceptions are numerous, a few of which will be pointed out hereinafter.

Market Price and the Present Worth of Future Benefits

Prices established in the marts of men are often grossly at variance with the Present Worth of Future Benefits. For example, stock in an industrial or a mining corporation may be selling at $100 per share and actively traded in at that figure, while a careful investigation may disclose that the Present Worth of Future Benefits may be only $80 per share. In the realm of real estate, the exceptions to the rule above defined are too numerous to mention, but as a general statement it may be said that a very large percentage of sales are made at prices which are not equivalent to the Present Worth of Future Benefits. This is easily understood when we consider that the average buyer or seller of income-producing properties is not an appraiser and is wholly incapable of estimating the Present Worth of Future Benefits. Thus, the price at which property sells, properly called Market Price, may not be and oftentimes is not the same figure as the Present Worth of Future Benefits; these two terms are seldom synonymous.

Then, too, two companies in the same business and in the same geographic area, may be each earning $10.00 per share of stock net per year and hence the Present Worth of Future Benefits would be the same for each. However, because of dividend policies, one company may be paying $8.00 per share per year, the other paying $6.00 per share per year. In these cases it will be found that that share of stock receiving the higher annual dividend will, because of that fact, have the higher market price. It is thus seen that Market Price may vary while the Present Worth of Future Benefits may remain the same.

However, Market Price does *tend* to adjust itself to the Present Worth of Future Benefits, but this tendency does not warrant us in assuming that they are one and the same amount. They are no more one and the same than is a calf a cow, or a colt a horse, although in the normal adjustment a calf will become a cow and a colt will become a horse.

In passing judgment, the appraiser may be required:

1. To estimate the Market Price, or
2. To estimate the Warranted Price, or
3. To estimate the Market Value, or
4. To estimate Future Changes in the Value of Money, and the consequent effects upon Price, or
5. To estimate Future Changes of Market Price and the probable Time of Occurrence.

Effects of Changes in the Value of Money

In the preceding paragraphs we have been discussing the Price for which Future Benefits *should* sell, and the Price for which they *do* sell. Both Market Price and Warranted Price will fluctu-

ate with changes in the Value of money, without the absolute *value* of the commodity changing at all, or but little.

For the sake of clarity, it is here pointed out that the *Price* of Money does not change, although the *Value* of Money fluctuates—sometimes greatly. As proof of the fact that the Value of Money changes, note the changes in the purchasing power of the dollar. The statement "changes in the value of money" is synonymous with the statement, "increasing or decreasing commodity prices," and hence, changes in the value of money are approximately disclosed by changes in the Commodity Price Index.

During a *rising* Commodity Price Index, when money is decreasing in value (purchasing power) it is found that rising prices cause certain well-defined effects, somewhat as follows:

1. causes an increase in profit to enterprise,
2. stimulates enterprise and industry,
3. increases employment,
4. increases the wages of labor,
5. after a time, increases rents of property,
6. increases the prices of common stocks,
7. increases the interest rate on bonds,
8. decreases the market price of bonds of distant maturity,
9. further increases rents,
10. increases the market price of real estate,
11. increases building activity,
12. eventually causes an over-expansion of building, or industry,
13. eventually causes a disappearance of profit from building or from industry,
14. thus causing a curtailment of building, or industrial production,
15. thereby leading to unemployment, thus
16. reducing the "real wages" (purchasing power) of labor, being
17. responsible for "under-consumption" of commodities, or properties,
18. in turn bringing down ability to pay rent,
19. resulting in a decline in market price of property.

A *downward* movement of the Price Level, *falling prices*, which is synonymous with an increase in the Value of Money, if severe, is responsible for the depression which inevitably follows, with its attendant consequences of "growing" mortgages, "shrinking" equities—in effect, redistribution of wealth from the debtor to the creditor, a frozen real estate market, foreclosures, receiverships, bankruptcies, bank failures, and suicides.

The effects of a falling price level, generally caused by a restriction of credit, called "deflation," may be shown somewhat as follows:

1. first comes the restriction of credit, which
2. causes a decrease in the price level,
3. which brings about a decrease in profit to industry, or income to real estate,
4. causing a curtailment of expansion of industry, and reduction in building volume,
5. causing a reduction in the price of common stocks, or realty,
6. inducing a further curtailment of production,
7. bringing about unemployment,
8. decreasing the purchasing power of labor,
9. causing a condition of under-consumption,
10. causing a lessened demand for credit,
11. decreasing the velocity of money and credit, thus
12. accentuating the price decline, and
13. decreasing the nominal wages of organized labor,
14. causing a decline in the price of bonds and fixed obligations.
15. forcing a decrease in the nominal wages of organized labor,
16. causing a transfer of wealth from the debtor to the creditor,
17. a further decline in the price of equities, such as real estate, or shares of common stocks,
18. bringing on foreclosures, receiverships, bank failures, bankruptcies,
19. causing the hoarding of money, due to fear, and
20. an increase in the price of government obligations,
21. a further recession in the price of shares of common stock (other than of gold mines),
22. an increase in the price of shares of gold mines, because of increased profit occasioned by lower working costs,
23. a further recession in the wages of both organized and unorganized labor, due to continued and widespread unemployment, and
24. agitation arises for economy in government, due to difficulty of meeting fixed obligations, particularly of taxes,
25. a reduction in personnel and salaries of public employees,
26. a decline in the price of long term governmental bonds, because of fear of increased interest rates occasioned by inability to balance budgets (city, county, state, federal),
27. agitation arises against governmental expenditures, such as road programs, building construction, unemployment doles, etc.

28. increased hoarding of money due to fear of further bank failures, or because of fear of bankruptcy,

29. causing a reduction in the volume of available credit due to disappearance of currency,

30. leading to a further price recession,

31. further accentuating the "disequilibria" or lack of normal balance between the productive factors.

Briefly, the causes and effects above enumerated have the following influence upon real estate:

1st—to "freeze" the market, i.e., causing a cessation of activity;

2nd—to lower rents of real estate; and "ipso facto"

3rd—to lower prices of real estate.

Price and Value

The development of appraisal procedure has been retarded because of the fact that too many appraisers fail to differentiate between Price and Value. Indeed, many appraisers do not know whether they are delivering an opinion as regards the Market Price, i.e., the amount of money a property will bring in the open market; or the Warranted Price, i.e., the sum of money one might be justified in paying, in view of future benefits.

As a matter of fact, the average opinion rendered by an appraiser is more or less of a hybrid reconciliation of the various purposes for which an appraisal is made. In order that a clear concept of Price and Value be grasped, it will be well to set forth, in a most rigorous economic sense, what is meant when either term is used. *Price* is that sum of *money* a commodity will command in exchange; *Value* is the quantity of *goods* (or services) that a given commodity will command in exchange. To illustrate: the Price a property will bring may be $10,000; the *value* of this same property may be 10,000 units of general commodities, goods or services. At a particular moment, a property may sell for a Price of $10,000; this sum of money might command a total of commodities (goods or services) equal to the Value of the property; i.e., the property and the money have the same *Value* at that particular moment in time, inasmuch as both money and property will command the same quantity of commodities. However, a few years later the property may still be capable of commanding 10,000 units of commodities in exchange and, viewed in this light, its *Value* has remained stationary, but during the same interim the *Price* at which the property could be sold may have declined to $7,500, in which case we must conclude that the *Price* has declined 25% without any change in the *Value* of the property.

This illustration brings us to the inescapable conclusion that the *Value* of money has changed, and that the *Value* of the Property, or Commodity, has not. As a matter of fact, the *Value* relationship between commodities changes but little, although the *Price* receivable for them may fluctuate widely. We are thus forced to the following conclusions:

1. *Value* is the quantitative ability of commodities (goods or services) to command other commodities (goods or services) in exchange.

2. *Price* is that sum of money which a commodity (good or service) will command at a particular moment in time.

3. The Values of Commodities fluctuates within narrow limits.

4. The Price of Commodities fluctuates within wide limits.

Necessity for a Common Denominator

The exchange of goods—one for the other—as found in primitive barter, would be utterly impossible under the complex conditions of present day civilization. It would be indeed difficult to exchange a large office building for other commodities, such as shoes, corn, automobiles, hides, etc., for the reason that only a small proportion of the quantitative ability of the property to command other goods in exchange could actually be used in the satisfaction of the immediate or near immediate wants of

the seller. Under such conditions it becomes necessary to have a Common Denominator, or medium of exchange, such as money, for all commodities. This interchangeable medium is Money and *What Serves for Money*, such as deposit currency (checks) and credit, and this medium is acceptable to owners of commodities in exchange for what they have to barter.

Without a Common Denominator, utter confusion would exist in the commercial world, and the continued existence of *Money* is necessary for the maintenance of our present Standard of Living and civilization.

Despite the fact that changes in the quantity of *Money*, and "what serves as money," in relation to commodities (goods or services), brings about conditions known as "booms" and "depressions," it still remains obvious that we could not go back to primitive barter and maintain our present standard of civilization. What we need is not a return of primitive barter, not a printing of more Money, not the granting of additional credit, but rather do we need a deeper and wider understanding of how to keep the quantity of Money, and what serves as Money, in direct proportion to properties, goods, commodities, and services. When we are able to do this we will be able to maintain a more level tenor of existence. Stated differently: *intelligence* and *knowledge* as to how to control money and credit is more necessary to national welfare than anything else.

How Prices of Commodities Are Set

Whenever one commodity is directly received for another in exchange, it has a quantitative *Value* expressed in terms of the quantity of the other commodity received in exchange; but, when a commodity exchanges for money, a *Price* is received for that commodity and, strictly speaking, *Value* ceases to exist. However, the money received for a commodity can be exchanged for other commodities and thus a *Price* is received for the goods, although *Value* is received for the money. As stated before: *Price* is the ability of one commodity to command money in exchange; *Value* is the ability of one commodity to command another in exchange.

When Money is used as the medium of exchange, other goods are not *directly* commanded, and it thus seen that Money is merely the shadow of the substance of the ability to command goods in exchange.

Money has no *Price*, it has only *Value;* and such Value is dependent upon the quantity of other goods which it can command in exchange. It is therefore seen that commodities or goods have both *Price* and *Value*, while *Money* has only *Value*. The reason for this differentiation will be later shown.

In view of the foregoing, it becomes apparent that Price must be considered as the result of the attempt to place a Value on Money. It will be shown that Price is dependent upon the quantitative relationship existing between Money and what serves as Money, and the Circulation Rate of Money, all of which will be called "Credit" for the sake of clarity, on the one hand, and Production and Trade, hereinafter called "Production" for ease of concept, on the other. It will also be shown that Value is dependent upon the relationship existing between the quantity of Money and its effectiveness on the one side, and the quantity of real and personal property on the other. As determinants of Price, we find the following formula:

$$Price = Credit \div Production$$

It is thus seen that both *Credit* on the one hand, and *Production* on the other, appear as major factors in the determination of Price, and hence reflect their influence through Price to Rents,

and through Rents to the Market Price of Real Estate.

The research work performed by Dr. Carl Snyder of the Federal Reserve Bank of New York has shown results in close agreement with the "Quantity Theory of Money," which, expressed in the most simple manner, is as follows:

> The Price Level of Commodities is determined by the quantity of Money, and what serves as Money, multiplied by its Circulation Rate, and divided by Production and Trade.

Thus it is seen that even though the actual quantity of Money may remain constant, the *effective* quantity may vary because of changes in the circulation rate of money, called its turnover. For illustration, if the Circulation Rate of Money were to increase from 8 to 10 times per year, such a change would be tantamount to a 25% increase in the Quantity of Money.

From this we must conclude that the effective quantity of Money is a variable, greatly dependent upon its rate of circulation; and any change in the Circulation Rate, assuming Production and Trade to remain constant, would obviously change the Price Level. Conversely, any change in the rate of Production and Trade, without a change occurring in the quantity of Money and its effectiveness, would likewise change the Price Level.

The quantity of Production and Trade can be quite accurately measured; also the quantity of Money and deposit currency can be reasonably closely estimated. However, the Circulation Rate is a factor most difficult of estimation. The determination of what constitutes the *Safe* Rate of Circulation, and means to control it, is probably the most important task in the field of economics. It is no exaggeration to say that the Circulation Rate of Money and Credit is the most important factor affecting the Price Level and changes therein.

The foregoing discussion relates to the General Price Level, which has an important bearing upon the Market Price and Warranted Price of Real Estate. However, no two pieces of real property are alike, and, in addition to the influences of the General or Commodity Price Level, we must consider such influences as District Mutation, Population, Drainage Area, etc.

How Warranted Price Is Set

It has been pointed out that in the setting of prices the Circulation Rate of Money might change. The use of deposit currency, or checks, presupposes the use of a credit or bank deposit, and the quantity of credit extended is dependent upon estimates of the Warranted Price Level; i.e., the Price at which things *should sell*. This Warranted Price Level is generally assumed to be the level exemplified by recent transfers and sales. This general habit calls for an evaluation of that which is offered as security for the credit. Therefore, it becomes apparent that in the future the appraiser must be able to estimate not only the Price at which a thing *will* sell but also the Price for which it *should* sell. The latter is the preferable estimate on which credit should be extended.

We have seen that prices are set by money, credit, and the circulation rate divided by production and trade. Let it be assumed that the actual quality of money in circulation is five billion dollars, the quantity of credit is 45 billion dollars, and the circulation rate is two times per annum. Let it be further assumed that production and trade amount to 100 billion units of commodities. Under such condition the price level should be as follows:

$$\text{Price} = \frac{\text{Money} + \text{Credit} \times \text{Circulation Rate}}{\text{Production and Trade}}$$

Substituting in the equation:

$$\text{Price} = \frac{(5+45)\times 2}{100} = \frac{50\times 2}{100} = \frac{100}{100} = 1.00 \text{ or } 100$$

Let us assume that at this point a given quantity of credit is asked for. The appraiser would quickly find that the Price Level was 1. or 100. Further investigation might determine that the Safe Circulation Rate over long periods of time is 1.5 rather than 2 and that under such conditions the most rational assumption is that the *Actual* Circulation Rate will decrease to conform with the *Safe* Circulation Rate, and that Market Prices will fall. The degree indicated that Market Price will fall may be stated as follows:

$$\text{Price} = \frac{(5+45)\times 1.5}{100} = \frac{50\times 1.5}{100} = \frac{75}{100} = .75 \text{ or } 75$$

So far, it is indicated that market prices will decline 25%. However, further investigation discloses that Production is in excess of consumption and this excess will also exercise a weight tending to further depress prices, and therefore the mathematical expression, to include the effects of such "excess production" would be as follows:

$$\text{Price} = \frac{\text{Money} + \text{Credit} \times \text{Circulation Rate}}{\text{Production and Trade} + \text{Excess Production}}$$

Thus, if we expect the circulation rate to move downward from 2 to 1.5 and the degree of excess production to be 3%, we would then estimate the *Warranted Price Level*, towards which the *Actual Price Level* would adjust, as being:

$$\text{Price} = \frac{(5+45)\times 1.5}{100+3} = \frac{50\times 1.5}{103} = \frac{75}{103} = .73 \text{ or } 73$$

which indicates a 27% recession in Market Price Levels before it would be in agreement with the Warranted Price Level. The adjustment of the Market Price Level to this Warranted Price Level might be over a fairly long period of time, e.g., year 1872 to 1896, or the adjustment may occur in a comparatively short period of time, as shown by the drop from 1920 to 1921.

Under the above mentioned conditions, where the Actual Circulation Rate is above the Safe Circulation Rate, short term extension of credit might be greater on a Value estimate closely in agreement with prevailing market prices; on the same basis of estimation a long term credit would be extremely unwise and hazardous. Therefore, if long term credits were granted on estimates of the Warranted Price, or Warranted monetary value, Prices would probably shrink, but not in the violent manner that generally accompanies the realization that Credit is over-extended and the Circulation Rate too high.

It thus becomes apparent that appraisal procedure is moving toward the point where both Warranted Price and Market Price of real estate will both be estimated at the same time. To this end the appraiser will have to possess experience with Actual Market Conditions, and a thorough knowledge of economic and actuarial procedure which will allow him to estimate future prices and future market conditions as well.

How Value Is Set

In the previous discussion, Value was defined as the quantity of goods or services which another goods or service could command in exchange. The Value of such goods and services, one to the other, is determined in the same manner as all other commodities and services; that is, by the *Supply* of it in relation to the *Demand* for it. In some cases, like rubber, we find that, due to changes in production methods and other factors, the Supply increases at a very rapid rate in proportion to the quantity of other commodities, and in proportion to the Demand for rubber. Under such conditions, both its Value and Price fall.

The same reasoning holds true of coffee. The Brazilian Government, by attempting to fix the price of coffee much above its production cost, increased the profit from raising coffee to such a degree that great plantings immediately followed, and when these plantings came into production, the Supply was so greatly in excess of the Demand that both the Price and Value of this commodity—in relationship to other commodities—fell rapidly. Coffee and rubber are exceptions. Nearly all other commodities rise and fall in Price together or with but a slight lag as regards raw and finished commodities. In looking back over the past few years and examining the history of past Price declines, we find that all commodities *tend* to decline in unison.

Real Estate and Rentals have fallen; so also have materials, labor, food, shoes, copper, clothes, and nearly all other commodities. The value relationship between commodities changes but little, even though the Price changes may be great; e.g., in the years 1900-1911 it required 9 units of "hides" to purchase 10 units of "building materials"; during this same period the general price level advanced from 55 to 70, being an increase of 27%. During this period the Value of "hides" and "building materials"—one to the other—changed not at all, while

the price of hides increased..... 19%
the price of building materials increased.. 20%
the price of wholesale Commodity Index increased 18%

This illustration clearly shows the fallacy so often made by appraisers, financial authorities and others—that Values change rapidly, when, as a matter of fact, what really changes is the Value of Money, and not the Value of Commodities.

Despite the drop in real estate prices during the period 1929-1932, the Value of real estate in relation to other commodities has changed but little. Of course, this applies only to that type of real estate having a definite use and possible immediate earnings, such as improved real estate, and does not apply to those far-flung unwarranted subdivisions, the possible use of which could arise only in the dim distant future.

Purchasing Power of the Dollar as Compared with Year 1926, Showing Changes in the Value of Money*

	Year 1926	March 1931	March 1932
All Commodities	$1.00	$1.316	$1.515
Farm Products	1.00	1.416	1.992
Foods	1.00	1.289	1.605
Hides and Leather Products	1.00	1.142	1.294
Textile Products	1.00	1.429	1.704
Fuel and Lighting Materials	1.00	1.464	1.473
Metals and Metal Products.	1.00	1.157	1.238
Building Materials	1.00	1.212	1.366
Chemicals, Drugs	1.00	1.206	1.328
House Furnishing Goods..	1.00	1.136	1.297
Miscellaneous			
Auto Tires and Tubes	1.00	2.132	2.551
Rubber, Crude	1.00	6.250	13.889

Recapitulation

From a consideration of the foregoing discussions as regards Price and Value we see that it is necessary that the appraiser draw a sharp line of distinction between Market Price, Warranted Price, and Value. We have also seen that over long periods of time Value changes but little, even though Price changes greatly. We also find that, while the Value Ratio between various commodities is fairly constant, the Value Ratio between Commodities and Money changes rapidly, due not so much to changes in the quantity of money but to changes in the quantity of Credit and its Circulation Rate. We also see that in delivering a valuation opinion several estimates should be given, viz.:

1. the Market Price,
2. the Warranted Price,
3. a corrected Warranted Price in view of expected changes in the Value of Money.

The appraiser of the future must be trained in economics.

*Source: "Wholesale Prices"—U. S. Dept. of Labor—March, 1932.

Some Aspects of Land Appraisals Abroad

By CHARLES L. STEWART

FARM appraising in the British Isles, Denmark, and Germany is both simpler and more complex than in this country. The objects are sometimes more inclusive than in the more outstanding lines of appraising work here and sometimes less inclusive.

In the British Isles, as in Denmark and Germany, appraisal work has frequently to do with the acquisition of large ownerships of land by public and semi-public agencies for subdivision into small holdings and allotments. This is a movement of which much will be heard in the United States within the next few years, unless urban unemployment passes away quickly. The scope of land appraisal will be increased here if widespread attempts are made to foster the purchase of land for resale to families for operation primarily to supply food for their members. Such a development may prove to be only started by the expenditure of the $25,000,000 appropriation available to the Division of Subsistence Homesteads in the United States Department of the Interior. Appraisal work incident to a small holdings movement is bound to be an important factor in any country where central or local governments support it.

Much the same applies in connection with the consolidation or restriping work. At one time or another this work has been prominent in the countries referred to and is still important in the Irish Free State, where the Land Commission carries on the work of the Congested Districts Board. One of the deepest impressions one is likely to receive in the Free State, outside of the effort to make that commonwealth independent of foreign supplies, even of exhaustible fuel materials such as turf or peat, is from the splendid leadership being exercised by Land Commission agents in helping farmers to get their land holdings into from a half dozen to one or two closely situated tracts several times their present average size rather than to continue trying to operate the numerous very small and scattered strips found in so many districts. The work of consolidation is in many cases dependent upon migrating surplus population of the rural villages into districts where large holdings have been found suited to being broken up into small holdings. Thus, the consolidation movement and the small holdings movement have been related.

In all of the countries referred to there has been a long history of rents received by landlords which have been used as a basis for assessing for purposes of taxation. In Denmark and in Germany the land income data have been put to exceptionally interesting use. The reference is to the so-called hard-corn assessment in Denmark and the land-tax net-revenue classifications of Germany.

The Danish device of rating farm land on the basis of barrels of hard grain (Toende Hartcorn) is a product of development beginning as far back as 1644. Between then and 1844 land maps were brought to completion for every community in Denmark. For each owner of land in the community a number was assigned and this number was repeated on each of his tracts. On the plot for each tract, however small a fraction of an acre it may be, a single letter designating whether the area was

---

This paper by the Chief in Land Economics, University of Illinois, Agricultural Experiment Station, was presented at a conference of land appraisers at that institution, Sept. 25-26, 1933. It is published here by special permission.—Editor.

one of land used for growing cultivated crops, for temporary meadows or permanent pasture land, or for forest. In addition, on each tract is a figure between 1 and 24 stating the result of the "hardcorn" classification. A rating of 24 represents the basic best, one of 16 represents ⅔ of the basic best, and so on.

When first told about this clasisfication, I was disposed to think of it as a very crude and outdated method. I assumed that it was only of historic interest. Both the economist and the tax official upon whom I was depending for information assured me that I was mistaken. The latter explained how the land of Denmark is given its present-day assessment for taxation. He explained how buildings were handled separately from land and how rates for local taxation differed from those for real estate taxes to support the national government. Most useful, he explained, is the hard-corn index. Of course, it needs revision to adjust for changes in drainage and other factors, but a rating of all soils into productivity classes is a primary need in appraising land.

Thus the work which Christian Rothe brought to culmination in Denmark in 1844[1] stands as a great contribution 90 years later, suggesting its own revision methods.

Under a law of 1861, Prussia carried out a land-tax net-revenue valuation (Die Preussische Grundsteuerreinertragsbonitierung). All other German states either preceded or followed Prussia in this classification work. The assessment laws of 1913 and 1928 applied to all of Germany. The law of 1928 put into effect a system devised by Dr. Rothkegel[2] for "integral" valuation (Einheitsverwertung), under which there is a rating of the entire real estate property of a farm as a going concern.

In Germany, students of farm appraisal have outstanding publications bearing dates as early as 1813.[3] German scientific thought in valuation of farm real estate has had two foci. One focus has been production values as arrived at by calculation of net profit realizable. This viewpoint was given impetus by an early German agricultural economist, von der Goltz,[4] and has supporters in high position in academic and governmental circles, including to some extent Dr. Rothkegel, a leader of present-day valuation activity in the German government.

Professor Aereboe,[5] on the other hand, has held valuation by productive value theoretically unsound and practically impossible, holding rather that valuation is to be assigned only according to prices established in sales and purchases.

As between the two schools of approach to the problem, there has always been compromise in practical appraisal. Neither focus displaces the other. Not a circle, but an ellipse is the practical result. What farm real estate will bring when willing buyers and willing sellers get together is splendid as a criterion of values in some times and places. At other times, such as in a

[1]Described in his volume entitled *Beretning om den 4 Aaret 1844 for Kongeriget indforte nye Iordskuldfaetnings: Baesen og Historie.* Copenhagen, 1844.

[2]Rothkegel, Walter, *Handbuch der Schaetzungslehre fuer Grundbesitzungen.* Two volumes. Berlin, 1930. See also Rothkegel, Walter, and Herzog, H. *Das Verfahren der Reichsfinanzverwaltung bei der Bewertung landwirtschaftlicher Betriebe. In Berichte ueber Landwirtschaft.* Berlin, 1928.

[3]Thaer, Albrecht: *Versuch einer Ausmittlung des Reinertrags der produktiven Grundstuecke,* 1813. Note also Gustav von Flotow. *Versuch einer Anleitung zur Abschaetzung der Grundstuecke,* 1820.

A rating system for meadow or hayland was put into effect in 1838 in the Kingdom of Saxony under directions for the valuation of real estate properties. For early classifications of grazing land, attention is called to Schmalz. *Versuch einer Anleitung zur Bonitieren und Klassifizieren,* Leipzig, 1824. For description of these and more modern systems, including those used by the German ministry of finance, see Rothkegel's *Handbuch.*

[4]von der Goltz, *Landwirtschaftliche Taxationslehre.* Third edition, Berlin, 1903. See also his *Handbuch der landwirtschaftlichen Betriebslehre,* Berlin, 1912. Concerning the work "Taxation," see footnote 6.

[5]Aereboe, Friedrich, *Die Beurteilung von Landguetern und Grundstuecken.* Second edition, Berlin, 1924. See also his *Taxation von Landguetern und Grundstuecken,* Berlin, 1929, and his *Allgemeine landwirtschaftliche Betriebslehre,* Berlin, 1923. Concerning the word "Taxation," see footnote 6.

period of upset incident to a generally disturbed market for farm products when governments step in to give continuity to loan policies as other lending agencies take a vacation, sales and purchases may not afford an adequate basis. This goes for other countries as well as Germany, where the controversy has raged most persistently.

The land-tax net-revenue valuation for Prussia 72 years ago and for other German states developed much the same result as the hard-corn assessment for Denmark. The maps shown me and the "mother roll" for the land tax have nearly every point similar to that of Danish maps and cadastral lists, which preceded them by several decades.

German land appraisal under the Rothkegel regime has the advantage of a legal basis for revision every three years. In framing the law to provide this feature, Rothkegel was wise. It illustrates a disposition to give weight to factors regarded as more flexible than in the earlier period.

The Einhertswerte system is perhaps more easily illustrated than defined. Rothkegel gives an example of the evaluation of a farm. Attention is given first to information on the area of the farm, the tax and the value of buildings, both in units of area, the rainfall, yearly and from May to August, the yearly temperature, number of frost-free days, the outlay for artificial fertilizer per unit of area, the percentage of the area in the various species of cereals, potatoes, sugar beets and forage plants, the animal units per unit of area, the yearly yield of milk, forage purchased, man-work days, and total wages per unit of area. Then each of the three use types of land to give special ratings. The arable land has each of its soil types separately rated for productivity on a basis of 100, rerated after allowance for climate, and a weighted average rating computed with allowance for the proportion of the arable land in each soil type. This percentage is then raised or lowered to take into account the conditions of the soil and other special conditions. The meadow or hay land is rated according to amount produced per unit of area, with allowance for hay quality, for soils viewed in a broad way, and for water conditions. Again a weighted average rating is attained on a basis of 100 and this raised or lowered to accord with the condition of the land and the hazards of hay drying. For the pasture or grazing land the main consideration is the number of pasture days, the quality of the turf, and of the grass. Then a combined natural productivity rating is computed for all the three classes of land, with a percentage figure resulting. Two major lines of inquiry are then made to converge upon this index. One has to do with layout and road economy; under this comes size of parcels in the case of plow land, meadow and pasture; distances from headquarters, shape of parcels, nature of roads within the farm, and information about the farmstead, including its location and the sufficiency of the yard room. The other line of inquiry has to do with factors of external economy, including distance by hard road to the nearest shipping point, both by hard road and railroad to the nearest market place and large consumption center, and also including advantages or disadvantages in prices incident to such location and in labor situation resulting from local conditions. Thus, the natural productivity index may suffer premiums or discounts for internal setup and for external economic features, the final result being a farm rating of, let us say, 65. This is applied against typical standard farms of various sizes and lo-

cations, whose valuation is established by reference to actual selling prices.

Criticisms of the Rothkegel plan are as follows:

1. It is based on net revenue, which is not so good a basis as it used to be.
2. Einheitswerte has difficulties as between large and small farms. Buildings and soil betterments differ in actuality between large and small farms but according to law must be assumed to be the same for all sizes of farms. The Einheitswerte tends to be higher on smaller farms than the terms of the law would suggest. This may be a fault of the law. An especially high equipment in buildings would be disregarded under the law. Rothkegel still stands by the law as he drafted it, Aereboe insisting that the buildings are worth what they will sell for.
3. The Rothkegel values, because of giving too little regard to selling price, are out of line considerably in some parts of Germany.

Dr. Petersen,[6] University of Berlin, points out these defects and says the Einheitswerte plan needs improvements as follows:

1. A new base classification, better than the old land-tax net-revenue assessment.
2. A reduced inconsistency as between large and small farms such as might be attained by using selling prices as a guide and by using absolute figures less and relative figures more.
3. A reduced inconsistency between districts by using selling prices more.

One of the most important lending agencies in Germany is the Prussian Central Cooperative Bank, called, for short, the *Preussenkasse*. Its Agricultural Management Economic Division had as its organizer Dr. Karl Brandt, who has recently joined the staff of the New School for Social Research in New York and as its present director, Dr. Friedrich Ackerman. This bank has not sought real estate loans, but loans frozen up for whatever cause had to have security put behind them and real estate has loomed in importance in the last few years.

Credit control has become connected with real estate, rather left-handedly perhaps, but the union is established. It is doubtful whether real estate credit will proceed without control features born of these trying times.

For purposes of the *Preussenkasse* the agricultural usable areas are classified as arable land, meadow land, and grazing land.[7] Eight grades or classes of each are recognized. The bank valuation follows closely the cadastral classification, subject to correction so far as the 1861 assessment is to be modified when a different grade is a consequence of betterments or of cultural measures. The specialist takes with him a soil auger, with the help of which he takes a sample of the soil and subsoil and on the basis of the natural soil factors establishes the conditions of the plowland.

Where no usable valuation is available or that at hand is plainly inapplicable, a new valuation must be made. Here a scheme of ten grades must be employed. In developing this it is the duty of the agricultural expert to employ for his assessment area a very carefully worked out price key. The best appoach to it rests upon contact with trustworthy estate agents and land settlement companies, but most attention is given to the trend of the land market.

The booklet of directions for appraisal of places in reference to farm credit control (see footnote 7) describes the system of percentages by which correction of the valuation up or down is applied. Apparently a new barn is credited as an addition on a percentage basis, but other items not strictly a part of farm equipment are treated on a non-percentage basis.

Then special premiums and discounts

[6] Petersen, Asmus, *Die Taxation von Wiesenlaendereien*, Berlin, 1928. (The English word "Taxation" is not to be regarded as a translation for the similarly spelled German word, which means "valuation.")

[7] *Preussische Zentralgenossenschaftskasse, Richtlinien fuer die Durchfuehrung von Ortstaen im Rahmen der landwirtschaftlichen Kreditcontrolle*, pp. 37-39.

The descriptions for classes of arable and meadow land are those of Aereboe. For grazing land the scheme for arable land is applicable, but special problems arise. For timberland there are five classes and for fishing ponds four.

are applied, in accordance with or in improvement upon the Rothkegel theories, so as to take account of several factors:

1. The size of the establishment as a farm business.
2. The distance from shipping facilities and the type of connecting roads.
3. The farm layout, the best being that in which the farm headquarters are near the center, the next best at the outer edge, and the worst outside of the borders of the area farmed.
4. The grazing facilities.
5. The buildings inventory.
6. The inventory of livestock and "dead" stock. Additions to the basic real estate figures by as much as 25 percent or deductions up to 15 percent may arise from this source.
7. Nearby industrial businesses.
8. The condition of the operating facilities.
9. The condition of the woods.

The considerations affecting the credit position of the borrower using farm real estate security are classified by the *Preussenkasse* into three groups:

1. Financial conditions.
2. Farm business conditions.
3. Personal conditions.

The first set of considerations has to do with a comparison of property with debts and a careful analysis of the indebtedness in all of its aspects.

The second set of conditions has to do with the farm management criteria.

The third has to do with the farmer's record in business management and in buying and selling. The use of farm accounts and other farm records occupies a large place in this.

Some of the most advanced work in land appraisal has been done by Dr. Petersen. Asked how he thought lands should be appraised, he replied substantially as follows:

1. There should be a new survey combined with a classification.
2. The classification should be such as to give two ratings for each area: (a) a rating for fertility and (b) a rating for other vital economic and social aspects. To combine these is a great mistake. A tract may be easily given a rating from 1 to 10. This is very important. To rate for economic and social factors is not so easy. To try to change a tract from 7 to 3 because it has a good location is, of course, disastrous to a physical rating.

To ignore the importance of location relative to market for products or source of exceptional labor supply or a neighborhood of excellent co-operators is equally serious. Such conditions are subject to marked changes, however.

A rating on a percentage basis is needed for moving the entire farm up or down with respect to its position in the physical sale. Economic factors can easily be over 50 per cent of the total; that is, more significant than the soil factors. Certainly over a wide district the non-soil factors may outweigh the soil factors.

The selling-price basis is best, but subject to criticism. It is difficult to segregate and assign weight to all of the elements summarized in the price. In a homogeneous district it is rather satisfactory, but there are often non-realty factors, special terms or special kinship situations between buyer and seller.

In those parts of Western Europe where the greatest activity seemed to be under way in developing clear understanding of methods usable in appraisal work, the following trends are apparent:

1. A firm recognition of the necessity for rating land on the basis of soil and subsoil factors so as to arrive at its gross value product.
2. An insistence upon the importance of annual productional value, or, in other words, value in producing annual net income.
3. A growing use of farm accounts and re-examinations of the farm business status in the cases of delinquency.
4. A growing recognition of the importance of non-soil, economic and social factors leading to a point of desire to rate the land for these factors as well.
5. A close correlation between valuations for all purposes so as to provide valuations on a basis sufficiently universal to meet the needs of taxing bodies and of bodies having to do with small holdings and consolidations.
6. A recognition that appraisal, like surveying, has a professional significance, demanding men of high character and advanced training in pertinent subjects.

Unit Cost Factors

By HIRAM U. WELCH

IN the assessment of real estate for taxation purposes, the laws of Oregon provide for the use of the summation system whereby the land is assessed separately from the buildings and other improvements. Any system of unit cost factors that have been adopted for the appraisal of real estate by the assessors of the State of Oregon must therefore be applied separately to land and improvements and not to the real estate as a whole. For the reason that building factors, as a rule, have a more uniform and general application than the factors applied to other classes of property, this discussion is limited to the explanation of the use of unit factors as applied to the appraisal of buildings for assessment purposes in Multnomah County.

Assessments of buildings from year to year, if based on original cost of construction, result in serious inequalities in taxation, as costs of materials and wages increase or decrease from time to time. The fluctuations of the last fifteen years have been very pronounced. In competitive bidding the spread between low and high bids of contractors is usually rather wide. If reasonably uniform results are to be obtained a method of appraisal must be used which will fairly estimate average reproduction costs of buildings of various classes, types, and ages, as of a given time. An assessor should follow approved and standard practices in determining values, to the end that all taxpayers may be accorded equitable treatment.

Appraisal of a building as of a given time involves two distinct processes: first, determination of its estimated cost of reproduction; and, second, finding its sound economic value under depreciating or appreciating conditions and influences, which method of appraisal in effect is an application of the principle of reproduction cost less depreciation.

In Multnomah County, Oregon, prior to a general re-appraisal of all buildings, which was inaugurated in 1930, unit factor costs of construction were adopted, based on average construction costs in the City of Portland during the year 1929. Percentage adjustments of the 1929 factors are made annually to reflect changes in relative cost of construction indices and corresponding adjustments are made in the ratio of assessed valuation to appraised valuation.

Residential Appraisals

In the appraisal of reproduction costs of one and two family residential buildings, square foot factors have been developed covering 70 different classes of architectural types providing for appropriate adjustments for shape of building, area, finish, appointments, material, and workmanship.

A factor representing cost of construction varies with the size and shape of a building. The most economical shape to secure maximum floor space per foot of enclosing wall is a perfectly square building; next is the rectangular building. The greater the difference in the two dimensions, the greater the relative cost. Next to the rectangular shape is the building which is partly irregular, having six or eight angles in its outside walls. The least economical shape is that of the very irregular building with ten or more angles in the outside walls. Our appraisers are furnished with graphs of base factors for each class covering the four conditions

mentioned. Interpolation can readily be made as required.

The following is an illustration of the application of the above methods to a re-appraisal of reproduction costs of a well constructed eight room, two story frame colonial type dwelling, 30x40 feet in ground floor area, ¾ basement, six hardwood floors, tile floor and base in bathroom, shingle roof, high class electrical fixtures, one flue, fireplace, warm air furnace equipped with oil burner and circulating fan system, standard bathroom and additional lavatory with two pieces of plumbing, all rooms papered with the exception of kitchen, bath and lavatory, built-ins in the living room, dining room, kitchen and bath, and tile drains in kitchen. The base factor for such a dwelling contingent on average construction such as a full basement, fir floors, shingled roof, average wiring and fixtures, one flue, fireplace, ordinary warm air furnace, standard installation of six pieces of first class plumbing, walls plastered but not papered, built-ins in kitchen only and no tile work; with 2,400 square feet of floor space, is 2.98 per square foot. The adjustment of the base factor is as follows:

	Additions	Deductions
¾ basement		.08
Hardwood floors	.11	
Wiring and fixtures	.04	
Oil burner and circulating fan	.24	
Extra lavatory	.07	
Tile work	.09	
Built-ins	.07	
Wall paper	.08	
	.70	.08

Base factor	$2.98
Additions	.70
	$3.68
Deductions	.08
Computed factor	$3.60

A factor value for the dwelling described, constructed of average material and workmanship, is thus developed of $3.60 per square foot of floor area or a reproduction cost, including builder's profit, of $8,640. Different appraisers using different methods should arrive at approximately the same figure. The appraiser must bear in mind that no set of condensed factors is absolute. The unit costs referred to in this discussion are to be taken as average costs and are believed sufficiently elastic for the varying circumstances and methods of building construction, and the appraiser should exercise careful judgment in their application. Our appraisers are allowed a tolerance of 12% over and 6% under the computed factor. It will thus be seen that the range of appraisal of reproduction cost is within the bracket of $8,122 and $9,676. These computations are based on the average costs in the City of Portland for the year 1929, and in reconciling the cost for the year 1932, for instance, the appraisal would be reduced approximately 30% (see Figure "Class C-37").

Income Property Appraisals

Estimating reproduction costs of business buildings by either the square foot area or the cubical contents method requires wide experience in the use of unit factors. There are normally two kinds of planes in all buildings, namely: horizontal and vertical. The square foot floor area factor while consistent and dependable as to horizontal planes is erroneous as to vertical planes; the cubical contents factor is not consistent nor dependable as to either horizontal or vertical planes. In the appraisal of business structures and residential buildings other than the one and two family types, a somewhat different method has therefore been developed than that used in one or two family residential types.

Graphs have been prepared covering basements of various sizes and construc-

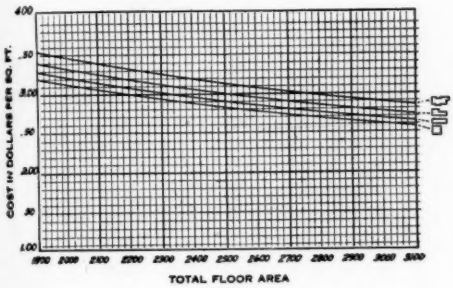
(Continued on page 197)

Class C-37

Items included in base factor / *Items deducted from or added to base factor*	*Area* 2000	*Area* 2500	*Area* 3000
1. Basement—Full concrete:			
Deduct, if ¾ basement	.06	.085	.095
Deduct, if ½ basement	.14	.14	.14
Deduct, if ¼ basement	.24	.245	.245
Deduct, if concrete foundation only	.345	.345	.34
2. First Floor—Fir over shiplap:			
Add for 1 room hardwood floor	.035	.03	.025
Add for 2 rooms hardwood floor	.055	.045	.04
Add for each additional room	.02	.015	.01
3. Second Floor—Fir over shiplap:			
Add for each room hardwood floor	.02	.015	.01
4. Roof—Shingled:			
Add for patent shingles	.035	.035	.035
Add for asbestos shingles	.13	.13	.13
Add for tile roof	.24	.24	.24
5. Outside Walls—Siding over shiplap:			
Add for stucco sides	.065	.06	.055
Add for brick veneer sides	.665	.595	.545
Add for tile base for stucco	.555	.495	.455
6. Wiring and Fixtures:			
7. Chimney—One:			
Add for extra flue	.035	.03	.025
8. Fireplace—One:			
Deduct, if no fireplace	.125	.10	.085
9. Furnace—Pipe:			
Deduct, if no furnace	.165	.15	.14
10. Plumbing—First class, 6 fixtures:			
Add for extra toilet and room	.055	.045	.04
Add for extra toilet, lavatory and room	.08	.065	.055
Add for extra bathroom complete	.145	.115	.10
11. Inside Finish—Plastered, fir trim:			
Add for each room, hardwood trim	See text		
Add for 1 room, paper over plaster	.015	.015	.015
Add for 2 rooms, paper over plaster	.025	.025	.025
Add for each additional room	.01	.01	.005
12. Built-ins—Kitchen built-in only			
Add for tile drain and back	.04	.035	.03
Add for tile bath floor	.06	.05	.045
Add for built-in nook	.02	.015	.015
Add for each room, built-ins	.025	.02	.02
13. Special Features:			
Add for sun room, extra window	.065	.055	.045
Add for each bay window	.025	.02	.015
Add for linoleum and window shades	.045	.04	.035

2-Story Dwelling

4 Rooms, 1st Floor
3 Rooms, 2d Floor



tion which can be readily applied with necessary interpolations. The horizontal planes such as floors and roofs including supporting members, and ceilings are computed on a square foot basis. The vertical planes such as walls, fronts, partitions, etc., are computed on a lineal foot basis with appropriate factors for type, height, thickness, plaster, class, etc.

The shell of the building having thus been computed, additions are then made for all other items entering into construction such as wiring, plumbing, heating, chimneys, stairways, fire escapes, interior and exterior decorations, etc. Our appraisers are allowed the same tolerance of 12% over and 6% less as is applied on residence structures; and reproduction costs can be reconciled to any particular year by appropriate adjustment under relative cost indices.

Depreciation

Perhaps no other factor entering into an appraisal of a building for tax purposes presents as many perplexing problems as the determination of appropriate depreciation, some of the elements of which must be met somewhat arbitrarily.

In Multnomah County, depreciation is computed separately for age, obsolescence, district, utility, and condition, with an offset for enhancement due to remodeling or better than normal maintenance.

Age depreciation is applied under the curved line method as illustrated in the accompanying schedule. The 1% rate is applied to steel frame and reinforced concrete construction; the 1½% rate to ordinary masonry; and the 2% rate to frame construction. Flats and apartments, theatres, hotels, and similar single purpose structures are given a rate of ½% in excess of that applied to the general type of construction.

Allowance is made for obsolescense, when justified, in addition to age depreciation. This term is applied in a restricted sense being limited to a consideration of the extent the structure is old-fashioned in design, finish, or appointments.

Allowance is made for district depreciation where the structure is an improper development of the particular site or district; where the character of the district has changed or where the immediate surroundings indicate a depreciatory influence.

Allowance is made for utility depreciation where the structure is a single purpose building and is not occupied for the purpose originally intended, and in such instance as the older higher class dwellings where the occupancy is by others than the original owners and the resulting loss in value is not covered by other allowances for depreciation.

Allowance is also made for condition due to improper maintenance or neglect.

Remodeling usually increases the utility value of a building and to a certain extent overcomes depreciation. Where buildings have been remodeled, appraisals are made on the basis of reproduction costs with allowances for the various forms of depreciation, the age being based on the original date of construction, but off-setting the total depreciation with the estimated percentage of enhancement of value due to the remodeling.

The maximum allowance for all of the combined elements of depreciation is 90% of the reproduction cost. Structures that have suffered more than 90% depreciation, in our opinion, should be considered as nuisances and either razed or repaired, as they exercise a depreciatory influence on surrounding property.

Table of Age Depreciation Applying in Multnomah County

Years	1%	1½%	2%	2½%	Years	1%	1½%	2%	2½%
1	1.	1.5	2.	2.5	36	30.4	42.	51.6	58.9
2	2.	3.0	4.	4.9	37	31.1	42.9	52.6	59.9
3	3.	4.5	5.9	7.2	38	31.8	43.8	53.5	60.9
4	4.	5.9	7.8	9.5	39	32.5	44.6	54.4	61.8
5	5.	7.3	9.6	11.7	40	33.2	45.4	53.3	62.7
6	5.9	8.7	11.4	13.9	41	33.9	46.2	56.2	63.6
7	6.8	10.1	13.2	16.	42	34.6	47.	57.1	64.5
8	7.7	11.4	14.9	18.1	43	35.3	47.8	58.	65.3
9	8.6	12.7	16.6	20.1	44	36.	48.6	58.8	66.1
10	9.5	14.0	18.3	22.1	45	36.6	49.4	59.6	66.9
11	10.4	15.3	19.9	24.	46	37.2	50.2	60.4	67.7
12	11.3	16.6	21.5	25.9	47	37.8	50.9	61.2	68.5
13	12.2	17.9	23.1	27.7	48	38.4	51.6	62.	69.2
14	13.1	19.1	24.6	29.5	49	39.	52.3	62.8	69.9
15	14.	20.3	26.1	31.2	50	39.6	53.	63.5	70.6
16	14.9	21.5	27.6	32.9	51	40.2	53.7	64.2	71.3
17	15.8	22.7	29.	34.5	52	40.8	54.4	64.9	72.
18	16.6	23.9	30.4	36.1	53	41.4	55.1	65.6	72.7
19	17.4	25.	31.8	37.7	54	42.	55.8	66.3	73.3
20	18.2	26.1	33.2	39.2	55	42.6	56.5	67.	73.9
21	19.	27.2	34.5	40.7	56	43.2	57.2	67.7	74.5
22	19.8	28.3	35.8	42.2	57	43.8	57.8	68.3	75.
23	20.6	29.4	37.1	43.6	58	44.4	58.4	68.9	
24	21.4	30.5	38.4	45.0	59	45.	59.	69.5	
25	22.2	31.5	39.6	46.3	60	45.6	59.6	70.1	
26	23.	32.5	40.8	47.6	61	46.1	60.2	70.7	
27	23.8	33.5	42.	48.9	62	46.6	60.8	71.3	
28	24.6	34.5	43.2	50.1	63	47.1	61.4	71.9	
29	25.4	35.5	44.3	51.3	64	47.6	62.	72.5	
30	26.1	36.5	45.4	52.5	65	48.1	62.6	73.1	
31	26.8	37.5	46.5	53.6	66	48.6	63.2	73.6	
32	27.5	38.4	47.6	54.7	67	49.1	63.8	74.1	
33	28.3	39.3	48.6	55.8	68	49.6	64.3	74.6	
34	29.	40.2	49.6	56.9	69	50.1	64.8	75.	
35	29.7	41.1	50.6	57.9	70	50.6	65.3		

The New Deal in Appraising

By BRACTON GOLDSTONE, M.A.I.

THERE is an old adage which says, "If every man lived long enough he would be both rich enough and wise enough"; which is merely another way of expressing the popular notion that experience is a wise school and man can learn in no other.

That the frightful real estate debacle has been like a lode-stone around the neck of our good friend, Mr. Quick Recovery, admits of no argument. There have been other depressions in this country during the past century; many of them of long duration with their attendant economic upheavals; but I venture to say that in none of our former periods of distress has the real estate situation been so acute. This, of course, can readily be explained by the progress in the arts and sciences and the development of our modern complex system of banking and financing which has enabled gigantic structures to be reared and money advanced for their construction and for their "supposedly" permanent financing by numerous complicated financial "set-ups" in addition to the simple old-fashioned straight mortgage loan.

Post-mortems are very distasteful and the truth hurts. Nevertheless I will not falter in stating that it is my humble opinion that the methods adapted by *some* of our loaning institutions in appraising real property for purposes of financing and re-financing, contributed in no small measure to the predicament in which we find ourselves at present.

Let us pass over the charge that has been heard frequently, to wit; that in the days of plenty many of these institutions, groaning under a superabundance of ready capital were too greatly concerned with business volume and threw discretion to the winds, and confine ourselves to the charge as written in the indictment that wrong and loose methods of real estate appraising expanded the bubble until it burst, and then caused untold hardship after the bursting.

What is an appraisal and valuation of real estate? It is someone's opinion of value arrived at by a careful study of all the necessary and material facts, figures, and conditions, properly assembled and analyzed so that the conclusions arrived at are the result of painstaking research. Otherwise the process becomes a guess.

There are of course a thousand and one definitions in the text books and in the decisions of the Courts as to what constitutes value; but my definition is sufficient for the purpose of this paper, because the analysis of necessary and material facts involve those factors which were so ably explained by Chief Justice Brewer on May 26, 1894, in the famous case of *C. C. C. and St. Louis vs Backus* in which he held that in the appraisal of real estate one must consider the present and prospective, the actual and the anticipated. That is good law which still holds true. It is good common sense.

The New Deal in Real Estate Appraising will require many of the loaning institutions and the Title Companies to institute a new and more thorough system of valuing property. The real estate appraising will have to be done in the future by *real* Real Estate Appraisers, and not by inspectors. If you note I say that these changes will have to be made by *many* of the loaning institutions, because in our present predica-

Mr. Goldstone delivered this address at the Annual Convention of the New York State Association of Real Estate Boards, Lake George, Sept. 18, 1933.

ment we are apt to be led to the grievous error of condemning all for the errors of the many. This is neither fair nor equitable, but our condemnation of the appraisal methods of many of our lending organizations is fully justified.

An Example

Getting down to brass tacks, I have in my possession a copy of a so-called appraisal card of a certain mortgage loaning corporation. This appraisal was made in 1928 upon a business building, size 100x90, built on a lot 100x100, two stories in height. All that this card shows is the estimated value of the land, the date that the building was constructed, and the estimated value of the building at the time the appraisal was made. The income and expense features are shown as follows: There is one line provided for the gross rent if fully rented and five small lines to cover the estimated operating expenses, and the necessary space showing the net income, if fully rented. Beneath that is a space provided for details as to number and rental value of vacancies. Other lines are provided for showing the assessed valuation, the appraiser's opinion of the value, and a small space of about 2½ inches by 3 inches for any general remarks that the appraiser desires to insert which would guide the loaning committee. At the bottom of the card there is also space provided for the initialing of the loan, and the decision of his superiors with regard to same. On the reverse side is a diagram of the property and space for legal description and such other matters as are purely legal in nature. On such a report a value of $180,000 was arrived at and a loan of $125,000 was made.

As I scan over the faces of this audience, composed in the main of experienced Real Estate Appraisers, many of whom I know personally, I can safely vouch that not one of you in your capacity as professional Real Estate Appraiser would compromise your professional standing, integrity, and reputation by turning in a report of that nature to any of your clients.

Now let us really see what his report lacks. To begin with, it lacks the usual historical analysis of the neighborhood, showing past, present, and prospective neighborhood trends; data as to transportation, accessibility, and racial neighborhood conditions. It lacks a neighborhood rental analysis, past, present, and prospective, in order to enable the appraiser to arrive at a stabilized rental value. It lacks a statement as to whether the site is adequately improved, under-improved, or over-improved, nor does the report show vacancy percentages of both ground floor and up-stairs space.

Surely a loaning committee, loaning $125,000 on a parcel of real estate, has a right to know the actual vacancy percentages in the neighborhood within a reasonable distance of the property appraised. The appraisal report does not show any proper set-up for depreciation or obsolescence, so that the cost of the structure may be amortized by a proper sinking fund with its economic life. I wish to repeat at this juncture what I said at the appraisal conference during the Convention at Chicago a few weeks ago: That in my opinion the New Deal will require these sinking funds to be actually placed in trust or in escrow, and that the time is not far distant when conservative and reputable loaning institutions will demand a deposit of sinking fund money in the same manner as they demand interest. Last but not least, the appraisal report does not show at what rate the net income was capitalized in order to arrive at a proper valuation of the property.

I know the answer that some of you gentlemen will make to all this: that in periods of great activity when many ap-

praisals must be made with a very limited staff, this thoroughness is impossible. That is begging the question. My answer is that the New Deal in Real Estate Appraising will have to make it possible. These institutions are loaning the public's money and not their own. The New Deal will also require the institutions to have more and better appraisers so that each appraiser will devote himself to fewer pieces and do the job more thoroughly. The extra expense of hiring these competent men will not only prove more economical in the long run, but will serve as evidence that the guardians of the public's money are carrying out the trust reposed in them to the very highest degree.

It may be interesting to you to know that at the time this appraisal card was turned in there had been a very small but unalarming influx of an undesirable element of Spaniards and Porto Ricans in the square block in which this property is located.

An infiltration not of sufficient strength to change the neighborhood at *that time;* but to a competent and farsighted appraiser the indications strongly pointed to a continued migration of this class of people into the neighborhood which surely would have its detrimental economic effects within at least five years of the time of making the appraisal; yet no written report pertaining to this phase of the situation was attached to the appraisal card.

Other Vicious Practices

Recently my attention was called to a case where a Real Estate Appraiser for a large loaning institution made 22 appraisals in one day of property scattered in different parts of the City of New York. That kind of back-seat appraising is just as bad as swivel-chair appraising.

I say with all sincerity that the New Deal in Real Estate Appraising must and will see the end of that kind of valuation work.

With reference to Investment Banking Houses that made a practice of selling beautifully engraved certificates to a trusting public, you will recall that many of the houses of issue made a practice of obtaining fractional appraisals, wherein one group of appraisers valued the physical worth of the improvements and another group of appraisers estimated the value of the land, and the house of issue added the two figures together for the convenience and future happiness of the men and women who turned their life savings over to them.

In other instances, the appraisals were made by the summation process whereby the value of the land and the construction costs of the improvement were added together by these so-called appraisers, and Mortgage Certificates as well as Grade "A" and Grade "B" stock was sold by the ton based on such valuations. Economic fundamentals were evidently thrown to the winds.

These high-pressure gentry probably never read the Bible, which teaches us that the seven fat years are followed by the seven lean years. If these bond boys did read the verses they probably ignored the admonition.

I often wonder what these appraisals would have looked like if the men who originally signed their names to them were held financially responsible for their misdeeds. Do not think for one moment that such a day is not fast approaching, because there is a provision of this sort in the Federal Securities Act of 1933 recently passed. This new act places a very important responsibility on real estate valuators, and the penalty for acts of omission are as heavy as those of commission. The act reads as follows: *"Every accountant, engineer*

or appraiser who has with his consent been named as having prepared or certified any part of the registration statement referred to in the act, or as having prepared or certified any report or valuation which is used shall be jointly or severally liable."

This provision will increase the responsibility of Real Estate Appraisers, and cause them to use extreme care in the preparation of reports and valuations under the provisions of that act.

The Formation of the Institute

The upshot of it all was this: that in every large city in the United States the reputable and conservative Real Estate Appraisers who took a pride in their profession had the vision to foresee the inevitable catastrophe which was being accelerated by such appraisal procedure. Through their concerted efforts several conferences were held; the entire subject was thoroughly discussed; and it was realized, as far back as 1926, that there would have to be a new deal in Real Estate Appraising and that standards of appraisal practice and procedure would have to be adopted. And it was further agreed that a central body clothed with authority to examine and certify competent appraisers, and exercise discipline and control through the establishment of rules of ethical conduct, would have to be organized.

This was accomplished at the 1932 National Real Estate Convention held in Cincinnati by the formation of the American Institute of Real Estate Appraisers under the wing of the National Association of Real Estate Boards. Great credit is due to Mr. Philip W. Kniskern, who is at present President of this newly formed Institute, for his untiring efforts and devotion to this cause.

Stringent rules governing the admission of candidates have been promulgated. Before the Institute will issue its certificate qualifying a member as to his professional experience, standing, and ability the following conditions must now be met:

1. The candidate must prove that for at least 5 years he has been actively engaged in valuing real property in an amount sufficient in quantity and quality to satisfy the Governing Council.
2. Data as to education and business history must be furnished.
3. A list of at least 10 of his clients must be submitted.
4. Three actual appraisal reports must be submitted with the application for membership.
5. The applicant must pass a written examination, under the supervision of the Local Chapter of the American Institute of Real Estate Appraisers.
6. His character and integrity must be vouched for by his local Real Estate Boards and the Local Chapter.

The Institute is already having a salutary effect, and as the public and the Courts become acquainted with the character and ability of its members and the principles for which it stands, they will appreciate the fact that there is a New Deal in Real Estate Appraising—and that a sincere effort is being made to protect the public from a repetition of the evils which brought about a lack of confidence in Real Estate and such an abnormal depreciation in Real Estate values.

Fact Finding

Turning to another phase of this New Deal in Real Estate Appraising, I make the prediction that we are on the threshold of a new "set-up" in our appraisal methods; to wit: Centralized Fact finding control through central agencies. In my opening remarks I stated that unless one was in possession of all the essential facts a satisfactory appraisal and valuation was impossible. That is elementary. What has been and still is our method of obtaining these essential facts? It is by individual effort; each according to his own fashion. There is neither co-ordination nor co-

operation in our work; this process of effort through rugged individualism must go.

While it is admitted that the investigation of certain facts and figures which usually go into an appraisal report must be the result of individual research in accordance with the character of the property, there are many features of this work which could be materially improved upon if we had the aid and assistance of a central research bureau.

Take any large city in the United States. There is no reason why the Real Estate Appraisers and the Loaning Institutions should not have access to a centralized research bureau which could supply them with authoritative figures as to vacancies, classified according to utility and geographical location.

Let us assume, for example, that an appraiser is engaged in valuing an office building in ward 1. The amount of vacant office space in all the office buildings in ward 1 becomes of paramount importance. The means of obtaining such information is as a general rule at present very difficult because there are very few centralized fact finding bodies supplying this information. What is true of vacancies is also true of pedestrian traffic counts, which at present are carried on intermittently and unscientifically and without any regularity of time and then only in the larger cities. There are other services which a centralized bureau under the control of the appraisal fraternity could render with great benefit to the appraisers and loaning institutions, such as for example:

1. The semi-annual tabulation of building costs of all types of property, and the preparation of graphs, charts and cost data showing the relative increases and decreases by percentages, platted with reference to specific periods; such as, for example, 1913, 1920, 1928, 1933 and so on.

2. A study of the relation of retail store rents to land values, and of population to classified retail shops.

3. A study of the effects of obsolescence on tall structures, and the time during which obsolescence makes its deepest inroads into earnings.

4. A study of the operating expenses of various classes of buildings and the compilation of data showing operating expenses per square foot, per room, or per square foot of net rentable area, as the case may be.

5. A study of the relation between rents and taxes, and the periodic compilation of charts showing how much of the gross income is absorbed in taxes by different classes of property.

I am just touching the high spots, being firmly convinced that such a central fact finding bureau can be of immense service to us in many ways, and materially aid us in our work. Nothing can take the place of good, sound judgment and experience; but nothing is so fatal in appraising real estate as conclusions reached without the possession of complete and adequate data.

If the plans which the American Institute of Real Estate Appraisers have in mind are carried out, a great deal of research work will be undertaken in the near future—but this research work will be of a broad and general nature affecting problems applicable to all communities. The real burden of organizing this central bureau in each city will fall on the shoulders of the appraisers in each community, but I am sure that they will receive the hearty support of the loaning institutions.

In New York City 47 mortgage lending institutions recently formed an organization called the Mortgage Conference to determine what steps the mortgage lending institutions might take to improve the distressed real estate situation and how these institutions might advance their collective interests in the future. This is centralized control of the highest order. This is the New Deal. Co-ordination of effort, co-operation between individuals interested in a common problem. In this lies our salvation.

Audits

Before concluding I wish to touch on another topic, which to me appears to have been rather neglected, and that is the accounting methods of individual owners and corporations owning real estate. It is surprising to know that very few owners have complete data as to income and expense covering a period of 10 years conveniently arranged and conveniently at hand when the appraisers call for such figures in connection with real estate valuation work.

At one of the sessions of our recent convention in Chicago Mr. John P. Hooker of the firm of Hooker and Slosson of Chicago, Ill., who have a considerable number of properties under their control and management, requested the Real Estate Appraisers who had seen records of any property showing an audit of taxes, operating expenses, and net income of an operated building over a period of 25 years to stand up and be counted. One man stood up. Two men had seen a 20-year audit. Five men had seen a 15-year audit, and only nine men had seen a 10-year audit in that audience of at least 300 appraisers.

I quote the verbatim statement of Mr. Hooker on the floor of the convention. He stated: "I have been in the real estate business in Chicago for almost 25 years and I have been able to get two long-term audits, and that is all. I know it is very difficult to get them. If more properties were properly audited, I think all of us would know a lot more about real estate than we do."

The New Deal in Real Estate Appraising will require better and more accurate records. In this respect our friends of the American Institute of Accountants can co-operate with us. Within the last few days I discussed this very topic with a vice-president of one of the largest savings banks in the Borough of Manhattan, and I expressed the opinion that it would not surprise me at all if the loaning institutions should promulgate a rule whereby all mortgagors would be obliged to forward a certified copy of income and operating expenses for each calendar year, which would repose in the archives of the mortgagee. If the loan is not renewed by the original mortgagee these records would be subsequently transferred to such other institution as would take over the loan. His answer was this: "My friend, what seems radical today is commonplace tomorrow. Time moves swiftly and if we do not go forward we do not stand still; we fall behind." People seem to forget that a mortgage is a debt which must be eventually paid. It is not an appurtenance which runs with the land. When you borrow money from a commercial bank, the good banker will require a very minute and detailed statement of all your assets and liabilities; and you cannot assert that such information is confidential and personal to you. What difference is there between the mortgagee's position and the banker's insofar as demanding the necessary information upon which he can form an opinion as to the desirability of a loan?

We Real Estate Appraisers are beginning to realize our problems and our responsibilities. Real estate appraising is a profession of high order. The day is past where real estate appraising can be treated as a side line. Our field of endeavor has been immensely broadened by the Federal Loan Bank Board, the Farm Loan Act, the Home Owners Loan Corporation, the Reconstruction Finance Corporation; and, in New York State, by the new law giving the courts power to order an appraisal in foreclosure proceeding. We will soon emerge from darkness to daylight, and order will come out of chaos. Let us be firm in our resolution to be equal to the task ahead of us.

Percentage Lease Rates

By K. LEE HYDER, M.A.I.

THE prevailing tendency toward the "Percentage Lease" constitutes a serious threat to the very foundation of land economics and, if continued, may result in a complete breakdown in property returns and values. Throughout the country the story is the same. By far the greatest number of new leases and renewals involves some percentage arrangement; and, in an appalling number of instances, the terms reflect no proper understanding of the relation of the parties to the transactions. In many cases the broker is at fault, but the trouble, unfortunately, is an organic one and the ordinary remedies will not suffice. It appears, in fact, that in these hectic days both the land owner and the merchant have lost sight of the fundamentals upon which any sound lease structure must be predicated. This situation may well constitute one of the most serious hazards to the return of prosperity.

Now, what is a "Percentage Lease"? In principle it has resulted from the effort to give a new business a low rent during its initial period and offset this to the landlord by a higher rent after the business is established and making money. It is *not* a partnership arrangement between the landlord and the tenant—not in any sense. If it were, there might be great merit in the plan. The lease provides basically that the rental be computed as a "percentage of sales" (total gross business), and it is nothing more than a gamble for big stakes. Just now it's the merchant who is holding the high cards. Incidentally he has made a greater study of the game and knows exactly how it should be played.

This plan of leasing is not new. It has been used more or less for many years. Various authorities in the property leasing and merchandising fields have compiled elaborate schedules purporting to show the rates or "percentage of sales" that should apply for different types of business. These rates became quite generally recognized during the post war period. The real estate and trade magazines during those years, culminating in the boiling days of 1929, launched a veritable barrage of articles, tables, and related data upon the subject. "Rent balance," "marginal ratio," "location standards," "pedestrian traffic count," "stock turns," and countless other factors, were weighed and discussed. Undoubtedly most of these articles were prepared and presented in good faith and reflected truly enough the experience of the authors, but it is more than probable that the majority of the "rates" presented were compiled to indicate a local situation of the moment rather than to present a study of the underlying economics. Moreover, the interpretations upon the part of the tenant and the landlord were diametrically opposite; in the one case it was—"what rate can I afford to pay"; and in the other—"What rate will give me a proper return from my property."

The Basis for Rates

The grave error on both sides has been in forgetting that these "rates" in themselves are not basic or fundamental to the proper consideration of the problem. They were simply developed empirically as the result of experience during a period considered to be one of general economic balance and stability. Actually the property investment and value and the recognized return demanded by capital really fixed the rental, and the

rate became the variable in accordance with the character of each particular business. It was found, for example, that an operator of a drug business in a certain location had to pay a rental that represented about 8 per cent of the sales he was making, and that at such a rental he could sell his merchandise in competition and still make a reasonable profit. Therefore this 8 per cent was fair. Again, a retail shoe dealer found that he could operate profitably under a specified rental, and it was only incidental that he discovered that this represented 5 per cent to 6 per cent of his sales. Gradually it was found that these ratios were reasonably related in comparable lines of business—and the schedules resulted. As a matter of fact it proved only one thing (in reality already known), namely, that competing businesses were compelled to occupy locations that were closely comparable in all particulars which, of course, necessitated similar rent expense. Too wide a departure from such standards would be disastrous. However, the location fixed the rent, based upon supply and demand rather than upon the hopes of the business itself.

A cigar store operator, we will say, catering to a "drop-in" trade, leased an important corner where pedestrian traffic was heavy and, of course, had to pay a high rental which, however, was justified by the volume of business he developed. His competitor on a side street paid a low rental, but was forced to close. It wasn't a question as to the *rate*—simply that he couldn't do enough business, and even if his rent had been free, he would still have lost money. Now, obviously a concern selling musical instruments could not have taken the cigar store corner since it would have been unable to pay the rent (and surely the "rental value" of the store should not be limited by what the music dealer could afford to pay). The side street location, however, was suitable for the music dealer; trade originated in a different form; and, furthermore, competing enterprises were also occupying secondary locations. All of these things come to pass through the workings of the fundamental laws of economics.

The rapid expansion of the "chain store" idea was perhaps largely responsible for the evolution of what had been merely an important item of *operating cost* to the status of control under a basic *economic law*. In other words, the market rental formerly set automatically by supply and demand was gradually conceived properly and relatively to vary with the sales barometer of a particular enterprise. The landlord at first paid little attention to this and fixed the rental for a location at a fair return upon his investment. He wasn't particularly interested in percentage leases until he began to note the possibilities offered for increased returns without any sacrifice of his guaranteed minimum. The "chains," having in mind complete coverage and desiring "key" locations, paid premium rentals. This appeared to be justified since increased business following on their heels permitted the sub-dividing and sub-leasing of excess space. In short, many of the "chains" in reality became engaged in the real estate business and made heavy profits on the transactions—frequently greater than from the business operations proper. The old standards rapidly disappeared, and during the process land values skyrocketed in certain locations based upon the returns from unsound or fictitious leases. Thus both the landlord and the tenant were riding the wave of prosperity and both were being carried into strange and uncharted waters. The broker, as the pilot, while perhaps a seasoned navi-

gator, could not foresee the shoals and rocks ahead.

So much for the background. Now, what is the situation today? Property owners are frightened as they see their equities crumbling through losses in tenantage. For a while temporary rental concessions were granted, but now, with the expiration of many of the more substantial leases negotiated in the late "Twenties," they frantically agree to almost any kind of rental arrangement to hold up the occupancy of their properties. They are ready to listen to all the tales of woe that are advanced, but instead of sitting down and working out an intelligent solution, they agree to an open "percentage lease" in the hope that they will benefit ultimately by increases in sales—but—they permit the stipulated *rate* to be reduced by 25 per cent, 50 per cent, or more from those rates formerly prevailing. Here is where the "joker" lies.

The merchandiser is having a tough time—there is no question about that. Sales are way off and profits virtually non-existent. He wants relief — and needs it. The most practical immediate step is to cut costs, and rent looms as the most important item of fixed operating expense. He is in a depressed frame of mind and would just as soon give up as not. He approaches his landlord with a "take-it-or-leave-it" attitude and finds, usually with surprise, that he can virtually write his own ticket.

The Basic Danger

This situation might not be so serious in the long run if it were simply a general trend toward lower rentals. A price level of 75, 60, or even 50 per cent of our former level would mean nothing if all commodities were to find their relative place in the whole structure. The basic danger is in changing this relation. And that is exactly what is happening when the *percentage* is reduced. In order to obtain a better perspective of the situation, let's see just what actual information we have on percentage lease rates. Statistical data may be classified by sources as follows:

1. Opinions of experienced real estate leasing and rental brokers, usually quite generally relating to many different types of business.
2. Opinions of merchandisers and specialists in the location if particular types of business.
3. Statistics assembled by the Schools of Business Administration of our various universities and compiled primarily from answers to questionnaires submitted to typical business enterprises.
4. Actual investigations and analyses of accounting statements and other recorded information in operating enterprises.

In undertaking to present and discuss some of these data, it might be advisable to state at the beginning that, except perhaps for two or three types of business, there appears to be no definite similarity whatever in the rates as obtained from these four different sources. In fact the discrepancies are so fundamental as seemingly to preclude the actual "weighting" in an effort to develop some common or average study. There are many reasons for this which will be suggested hereinafter, but it is apparent that the sources must be treated more or less independently.

The table on page 208 has been prepared by selecting representative opinions of eight rental agents or brokers from the published lists during the ten year period 1923-1933, inclusive. One of the lists was compiled by an operator from the far West, one by an operator from the South, and the remaining six by authorities from the East and Central West. The range of years and spread of location may be assumed to bring about more accurate averages. In this table the opinions are tabulated in columns by types of business, the last three columns giving the high, the low, and the average developed from the several rates. No attempt has been made

to record all types of business or all of the authorities who are on record, the thought being simply to compile a representative group. The result may be considered as fairly indicative of this class of informed opinion of fair percentage rates.

The columns are headed by numbers rather than by the names of the authorities. This is for the reason that the names, if published, should in all fairness be accompanied by the explanations and comments under which the schedules were issued. It is regretted that neither the scope of the article nor the space limitations would permit of such detail.

Study the table for a moment. Certain points are immediately noted. For instance—the identical rates throughout in the "automobile" group. Are these such exactly measurable rates, or merely a coincidence? It is probable that the rates represent a rather widespread acceptance of certain standards, without particular verification in fact. One of the most important factors in locating an automobile agency is the "advertising" value of a location. This frequently develops high rentals. A concern with a well established trade name, however, and handling a nationally advertised car can frequently bring its customers to a low rent location. This brings about wide differences in the "percentages" under conditions of actual practice.

Certain general relative consistencies may be observed. Those businesses with well-defined turnover and low profit margins, such as department stores and groceries, develop low percentages; whereas slow moving merchandise, such as pianos and musical instruments with wide profit margins, and flowers with the accompanying high loss factors common to perishable goods, automatically develop high relative percentages. The opinions for many of the lines ap-

Opinions of Fair Percentage Lease Rates Selected from Published Lists Compiled by Various Authorities—1923-1933 (Inclusive)

Type of Business	1	2	3	4	5	6	7	8	High	Low	Avg.
Art and Gifts Shops	10	10	..	..	..	..	..	..	10	10	10
Automobile (Agency)	2	2	2	2	2	..	..	..	2	2	2
Automobile (Accessories)	10	10	10	10	10	..	..	..	10	10	10
Barber Shops	15	10–15	..	..	..	12	..	..	15	10	13
Beauty Shops	20	25	..	..	..	..	..	..	25	20	22½
Books and Stationery	6	10	8	..	..	..	..	..	10	6	8
Candy	12	10	8–10	..	..	10	..	7	12	7	9½
Cigars and Tobacco	7	6–10	7–10	7–8	7–8	6–8	5–6	8	10	5	7⅓
Clothing (Staple) (Women)	8	6–10	6–10	5–8	5	6	..	6	10	5	7
Clothing (Staple) (Men)	10	6–8	6–8	5–8	5	6	..	6	10	5	6¾
Department Stores	4	3–4	..	3–4	3–4	3	..	2½–3	4	2½	3¼
Drug Stores	7	7–10	7–10	8–10	8–10	10	6–10	10	10	6	8¾
Five and Ten Cent Stores	5	5–8	5–8	5	5	5	5–6	5–6	8	5	5¾
Florists	12	10–15	15	12–15	12–15	..	..	..	15	10	13¼
Furs	10	10	..	..	..	..	..	..	10	10	10
Furniture (All classes)	6	5–7	5–8	5–10	5–10	..	..	..	10	5	6¾
Grocery (Neighborhood)	4½	4–10	5–6	..	..	10	..	..	10	4	6½
Grocery (Chain)	2½	2–3	2½–3	..	..	..	..	..	3½	2	2¾
Hardware	6	4–6	..	7–9	7–9	..	..	..	9	4	7
Hats (Men)	7	8	6–10	8	..	..	..	..	10	6	7¾
Haberdashery	10	6–12	8–10	..	5	..	10	8–10	12	5	8¾
Jewelry	10	5–6	. ..	15–20	12–15	..	8	8	20	5	11
Millinery	11	10–12	10–12	12–15	12–15	..	..	12	15	10	12
Pianos and Musical Instruments	7½	15	12–15	..	15	..	..	..	15	7½	13
Restaurants	10	10–12	8–12	12	12	..	..	12	12	8	11
Shoes	7	6–10	5–10	8	8	8	..	8	10	5	7¾
Sporting Goods	7½	5	..	..	..	..	..	..	7½	5	6¼
Surgical Articles	25	50	..	..	..	..	..	..	50	25	37½
Trunks and Leather Goods	11	10–12	12	..	..	..	..	..	12	10	11¼
Tailors	7½	..	6–8	..	..	..	..	..	8	6	7¼
Women's Wear (Lingerie)	11	10	10	8–10	8–10	..	..	10	11	8	9½

pear to vary between rather wide limits. Assuming for our purpose, however, that the averages are a fair cross section of the opinions of experienced rental brokers during the past ten years, do they represent their same opinions of fair rents today? This can be answered only in a very general way. During the past few months the subject has been discussed at first hand and at some length with well-informed Realtors in various parts of the country. The answer has generally been to the effect that some reduction would be justified, but that it should be made with the greatest care. A broker of wide experience in leasing department stores nationally stated that rental *rates* should come down temporarily, but that every lease should, in his opinion, have a minimum clause, and furthermore, that it should be made for a relatively short period or have some provision for cancelation upon the part of the lessor.

Mr. J. Solis Cohen, Jr., presented an excellent paper at the Chicago convention of the National Association of Real Estate Boards in June of last year, entitled "Percentage Leasing in 1933," which paper was digested in the July, 1933, issue of *The National Real Estate Journal*. He discussed at some length the question of rental, as expressed in "percentage of sales," and gave as his conclusion the opinion that few changes in rental rates would be justified by the depression, and that decreases should be offset by higher brackets in the lease terms as the volume of sales increased. He stated in part:

> The average percentages of sales for various businesses that theoretically should be paid by the tenant have been published so frequently that I am assuming they are familiar to all. With few exceptions these percentages should be as sound in 1933 as they were in 1930.

Some general improvement in many of the merchandising fields during the past few months would definitely tend to support and strengthen this opinion as applicable to the earlier days of 1934.

Factual Information

But, after all, are these opinion rates sound and of practical application to any particular type of business? Let's compare them with such *factual* information as we have available—which is admittedly meagre. Rather extensive surveys have been undertaken from time to time by the Business Schools of Harvard, Northwestern, Nebraska, and other universities. The comparisons that may be made show that the rates developed from actual rentals and sales are invariably far below the opinion rates of the experienced operators as given in the preceding table. In fact, the discrepancy is so great in most of the lines as to discredit the utility of any comparison. Take drugs for an example, the research statistics disclose "typical" rental rates actually paid of 3 per cent to 4 per cent as compared to the opinion rate of 8¾ per cent. Grocery stores show around 1½ per cent as compared with opinions of 2¾ per cent, and clothing around 3 per cent as compared to 6¾ per cent. What is the explanation? It is probable that there is no real basis of comparison—the size of the city, the character of the business done, the date under which the lease was made—all of these would enter into the situation. No doubt the opinions relate largely to conditions in the larger cities for active locations, whereas the *weight* of the research compilations involves established businesses—many under the favorable terms of a former era. In fact the statistics in one of Harvard's bulletins as far back as 1919 showed a range of from 8/10 per cent to 11 per cent for retail drug stores, whereas the "typical" figure was stated to be 2-8/10 per cent. There is no assurance that the reported figures are accurate or com-

plete, although extensive investigations have been made by the schools to develop correct data in certain trade lines.

Most of the printed bulletins presenting the results of these studies discuss the economics to some extent, but tabulate the results with no attempt to adjust the figures. This, of course, is the proper practice in research activities, but in an unexplored field of investigation is most likely to lead to unsound conclusions. The most that can be said for these compilations, insofar as they relate to the "costs of rent," is that they tend to discount the utility of any schedule of rates for practical application. When a rate of 2-8/10 per cent is developed for drug stores, as was the case in one of the previously mentioned bulletins published by the Bureau of Business Research of Harvard University, it is so far below even the most pessmistic ideas of the operators themselves as to warrant its exclusion from any consideration whatsoever. On the other hand, the figures—after all—have a basis in fact and therefore raise grave doubts as to the accuracy of opinion percentages.

Opinions of Merchandisers and Specialists

We come now to the opinions of merchandisers and specialists in the location of particular lines of business. Here again the available information appears to be at considerable variance with other data; and it must be recognized that statements from such sources, while perhaps authoritative from one standpoint, cannot be accepted as free from prejudice. The merchant does not care to fool himself on his costs, but it is only human nature to lean toward the low side where any results would be to his advantage. For example, in 1928 a bulletin issued by the Druggist's Research Bureau carried a group of tables setting forth the "typical or usual" operating expenses of drug stores as compiled by college research and pharmaceutical bureaus. The item of "rent," as expressed in percentage of sales for several localities, was given as follows:

Philadelphia	4.0%
St. Louis	3.8%
Iowa, Minnesota, North and South Dakota (exclusive of the cities of St. Paul and Minneapolis)	3.4%
Colorado	3.8%
Florida, Louisiana, and Mississippi	3.1%

Remember, this was in 1928, during the period of expansion—at a time when every newspaper was devoting a great percentage of its columns to real estate news, and leases on drug store locations in all parts of the country were being closed and reported daily at 6, 8, and 10 per cent of sales.

Many similar examples might be given of wide discrepancies between the figures advanced by the operators and the opinions of experienced brokers as set up in the table of "Fair Percentage Lease Rates Selected from Published Schedules by Various Authorities, 1923-1933." In fact, about the only types of business where some reasonable agreement appears to exist has been found in the rates for department stores, groceries, and to a lesser extent in various clothing lines—particularly women's apparel, and five and ten cent stores. The reasons for this may be twofold; first, the reasonably uniform locations and operating standards; and secondly, the rather definite relation of business volume to population. The large department store virtually creates the land values of the adjacent properties. Initial rentals are fairly stabilized at an amount that will produce a reasonable return to fixed capital invested in the land and improvements. Once established, the gross sales per unit of population are subject to little variation during normal periods; therefore, the rent

ratio for similar enterprises becomes closely comparable.

The same condition exists to a substantial extent in groceries and meats, although the units are small, numerous, and usually distributed throughout a city's area. Shops devoted to women's apparel must find central locations in close proximity to the department stores and the five and ten cent stores where the land values are highly stabilized. It is probable that in such businesses the rental they are compelled to pay is more particularly controlling than the idea of the rental that would be justified in the line.

In other words, it is indicated from a study of the statistics that the only "rates" that appear to be quite generally in agreement are in those instances where the basic return to capital invested in real estate is controlled within rather narrow limits and in turn where the business volume is generally constant and measured directly by the population served.

Results of Actual Investigation

Apparently the most authentic and acceptable information is that which has been developed by actual independent analyses of operating enterprises. These studies have usually been undertaken in "chain store" programs where expansion and consolidation are contemplated. Usually these plans involve a large number of operating store units under actual lease, together with proposed locations, as well as leasehold valuations, which necessitate investigation into demand rentals under real estate market conditions as compared to those being paid. The assembling of smaller groups develops rates that represent more average conditions, since the merchandising plans and methods may have covered a wide range for the particular type of business.

A study of nine of the largest grocery and meat chains in 1930, for which the records are available, covered the analysis of over thirty thousand stores. The figures developed an average rental rate of 1 93/100 per cent of sales volume. Since this related to a total volume of over two billion dollars, it might be safely concluded that for this type of business the fair rate would approximate 2 per cent. This compares with the 2¾ per cent average of opinions as previously given in the table of "Fair Percentage Lease Rates," and the 1½ per cent average as compiled in particular studies by schools of business research. It should be recognized, however, that such a comparison proves very little, since differences in store groupings and conditions might readily show a wider spread, even though the figures were based upon the same information and method of analysis.

As an indication of the influence of sectional locations, an actual field investigation in 1930 of one hundred grocery stores operating in five chains in small towns of Arkansas and Oklahoma developed an average rate of 1 33/100 per cent, with a spread of from 75/100 to 1 49/100 per cent. This would appear to show that lower percentage rates prevail in the smaller towns and in the less progressive communities.

It might be further mentioned that this rate of 1 33/100 per cent very closely compares to the Harvard compilation of Retail Grocers for 1924, wherein the average of all firms reporting was given as 1 3/10 per cent.

Consider some actual figures in women's apparel. In the Spring of 1929 a group of fourteen store units in Chicago was investigated for the particular purpose of setting up rental standards. These stores were operating as a "chain" handling a standardized line of women's dresses under a previously

well-established trade name. They were all first floor locations in different sections of the city, and all had standardized fixtures and equipment with frontages of about twenty feet. The "fair" rental was estimated upon the basis of the actual market, which was well stabilized at the time and was therefore a true measure of the location's realization value to the owner. The study clearly illustrates the fallacies in attempting to standardize percentage lease rates, and the figures are summarized in the table below.

The wide variance in the ratio of the *known fair rental* to sales volume is immediately noted, the range being from 2 37/100 per cent to 8 2/10 per cent, *and this for an absolutely identical class of busines occupying standard size units in locations as comparable as possible!* If this "chain" were asked to report to a Research Bureau and gave out complete figures, the reported average *actual* rate, as shown on the table, would have been 4 4/10 per cent, whereas the demonstrated and proven average *fair* rental was 5 3/100 per cent. Had the average opinion of rental brokers been used in accordance with the published lists of the period, the fair rate would have been specified at perhaps 7 per cent to 8 per cent.

Certain conclusions may now be offered in reference to percentage lease rates that appear to be justified from a consideration of the information presented and discussed in the foregoing:

1. Published opinion rates by experienced rental brokers are indicative solely of broad relationships in different lines of business. They cannot be accepted or utilized for purposes of direct application.

2. Studies by Schools of Business Research are of value only insofar as the results are analyzed and explained. Of necessity rates so developed do not produce a current ratio, since they apply rentals fixed in the indeterminate past to present sales.

3. With the exception of a very few types of business, such as department stores and grocery chains, the existing information appears to preclude the acceptance of any predetermined rates in setting up percentage leases.

4. The wide spread in rates, actual or suggested, from experienced operators for the same types of business appears to show the grave danger in arbitrary rent percentage reductions in particular cases.

After all, the rental basis in most of the percentage leases of earlier years was usually considered very carefully and was intended at least to work no hardship upon either party. It is re-

Summary of Rental Study, Women's Dress Shops
Chicago, Illinois

No. of Store	Total Sales 1928	Annual Rental Actual	Rental to Sales %	Estimated Fair Rental	Estimated Fair Rental to Sales %
1	$ 93,847.00	$ 3,600.00	3.84	$ 6,600.00	7.03
2	63,432.00	2,400.00	3.78	2,400.00	3.78
3	74,465.00	3,300.00	4.43	3,300.00	4.43
4	126,792.00	3,000.00	2.37	3,000.00	2.37
5	92,349.00	5,400.00	5.85	7,200.00	7.80
6	176,859.00	8,400.00	4.75	9,600.00	5.43
7	168,334.00	3,300.00	1.96	7,200.00	4.28
8	87,950.00	6,300.00	7.16	7,200.00	8.19
9	125,386.00	4,200.00	3.35	5,400.00	4.31
10	131,893.00	4,800.00	3.64	4,800.00	3.64
11	149,529.00	3,000.00	2.01	6,000.00	4.01
12	*600,000.00	35,000.00	5.83	35,000.00	5.83
13	119,172.00	5,000.00	4.20	7,500.00	6.29
14	160,044.00	7,800.00	4.87	10,500.00	6.56
Total	$2,170,052.00	$95,500.00		$115,700.00	
Weighted Average			4.4		5.3
Common Average			4.4		5.3

*Loop unit opened in May, 1928, and operated during 8 months only. Sales estimated for entire year based on such operating period.

peated that the grave danger at present is not in the lowering of the rental, but in the lowering of the percentage—whatever it might have been.

This condition is becoming more and more aggravated through the propaganda of various trade organizations which are actually issuing bulletins to their members and even to the property owners with figures to show that the former rates in percentage leases are too high and that the businesses can no longer operate profitably upon such basis. The application of a little common sense upon the part of the property owners should indicate that such specific statements, couched in terms that infer the workings of an immutable and inflexible economic law, are utterly ridiculous.

Just why is "rent" the only item of property cost of operation that must vary directly with the volume of business? Why not set up the percentage that was formerly spent for *coal* for heating purposes and state that under present business conditions the number of tons burned per annum must be reduced? Or for taxes—or insurance—or any other item of operating cost? It is just as important that savings be effected in all items, but the truth is that all property expense depends upon many factors only indirectly related to the volume of sales. The only sound doctrine that can be applied to any merchandising enterprise is that the *selling price* of the commodities must be fixed at a level that will at once provide for all operating costs and yield a reasonable profit. There is no logical basis for expecting a property owner to contribute his rightful income to establish a lower selling price for merchandise.

In order that this position may not be misinterpreted, it might be added that the price level of commodities generally will have its upward limitation at the point where the public is no longer willing or able to pay. Property returns must therefore come down along with net profits from business when the purchasing power declines, but should contribute no more than its rightful share.

As an example of the effort to influence the property owner, *Drug Topics*, under date of March 1, 1933, carried an open letter signed by its editor, Mr. Jerry McQuade, and addressed "To the Landlords of Drug Store Operators." The editor presents the druggists' position very cleverly and brings out the failures of some of the larger drug "chains" as resulting primarily from the inability to continue to pay the rentals under their lease structures. (He does not state, however, that some of these failures were in reality "real estate" failures, and that the capital securities upon which interest charges and dividends were necessarily computed had been pyramided far beyond the reasonable earning capacities of the businesses under normal operation). The letter makes a forceful plea for the landlord's cooperation and stresses the advantage to him in accepting a "percentage lease" basis. The rates suggested are of interest and are tabulated in the following:

Annual Sales of:	Rental Basis not over:
$ 25,000.00 or less	3 %
25,000.00 to 50,000.00	3½%
50,000.00 to 75,000.00	4 %
75,000.00 to 100,000.00	5 %
100,000.00 and over	6 %

Mr. McQuade states that "In towns where no wholesale drug companies are located, these percentages should be reduced approximately ½ of 1 per cent." One wonders why, in such towns, it might not be equally reasonable to assume that the selling prices of the goods should be increased to cover the added cost.

It is interesting to note that the rates

for the lower brackets virtually coincide with the fair rates developed within the same industry in 1928, as set forth in a previous tabulation. Since the conditions at that time were particularly favorable in the drug business, whereas now they presumably are not, we are again led to the conviction that rates presented for general application have not yet been developed to a degree of stability that would warrant their acceptance, regardless of the principles or logic involved.

The danger to the landlord in lowering percentage rates may be best illustrated through a practical example. Take an average drug store of the modern type formerly doing a $100,000.00 annual volume on an 8 per cent basis and paying about $8,000.00 rental per annum. Assume the property to have cost the owner $80,000.00, of which $60,000.00 was for the land and $20,000.00 for the building, which—for simplicity—we will consider as a one-story, single purpose improvement. The $8,000.00 rental, therefore, produced a return of about 10 per cent gross on the investment, which would provide for property expense, fixed charges, and net return. This property was mortgaged, we will say, for $40,000.00 (a conservative loan) at an interest rate of 5½ per cent. The set-up to the property owner might have been about as follows:

Income from rental		$8,000.00
Expense		
Interest	$2,200.00	
Taxes	2,000.00	
Insurance	100.00	
Maintenance	200.00	
Depreciation	600.00	
Subtotal		$5,100.00
Remaining for Owner's Equity		$2,900.00
Upon the basis of $40,000.00		7¼ Per cent

Now, supposing the gross sales have declined to $50,000.00 at the moment and the lease is up for renewal. Is it fair to reduce the former percentage to 4 per cent, as suggested in Mr. McQuade's letter, for a $50,000.00 volume? Or even to reduce it to the highest percentage of 6 per cent, as applicable to the former $100,000.00 volume? Let's see where the owner would be under such a proposal. First, there has been practically no material decrease in the expense. Interest is fixed. Taxes show no reduction of consequence, since our tax authorities do not realize that values must, after all, follow closely the returns to be made. Building costs are off perhaps 30 per cent as a maximum, which, of course, decreases insurance, maintenance, and depreciation. Let's be liberal in the comparison and adopt 6 per cent as the proposed new rate. The picture would be changed:

Income from rental		
(6% x $50,000.00)		$3,000.00
Expense		
Interest (unchanged)	$2,200.00	
Taxes (nominal reduction)		
Say	1,800.00	
Insurance (30% reduction)		
Say	65.00	
Maintenance (30% reduction)		
Say	135.00	
Depreciation (30% reduction)		
Say	400.00	
Sub-total		$4,600.00
Net Loss		$1,600.00

Obviously the equity of the owner is going to be wiped out immediately and, furthermore, the land under such conditions virtually ceases to have any value whatever, even to the holders of the mortgage. The irreducible expense to be continued under foreclosure consists of taxes, insurance, and maintenance, totaling $2,000.00, leaving a return *before depreciation* of $1,000.00.

If this income is capitalized at 7 per cent, say, in order to provide something for retirement, the resulting sum would be about $12,000.00, representing a value substantially less than the cost of the building itself, without any consideration whatever for the land. If an ade-

quate depreciation were deducted to actually replace the building, then the net remaining would be reduced to $600.00 per annum, which, if capitalized at 5 per cent, would reflect about $11,000.00 as the only possible value in the underlying $40,000.00 mortgage. These computations are based upon a rental of 6 per cent as applied to gross sales. At a 5 per cent rate it is obvious that the owner could never recover anything from his equity, even if the business should return to a $100,000.00 volume, since this would produce just about enough to satisfy the interest under the first mortgage.

This might sound like a wild example. It is exactly what would happen, however, if there should be any widespread acceptance of the fallacious theories now being advanced in percentage lease practice. Professor Ely of Northwestern University, regarded as one of the ablest authorities on land economics in the country, adopted a slogan long ago for the dissemination of his teachings—"Under all, the Land." There is every indication that this sound concept is going to break down. The solid land is rapidly turning into a swamp, and unless we get back to fundamentals and abandon these unsound theories, we may well find that we have created a veritable morass which will not only swallow up capital, but may carry business with it.

What any business can "afford to pay for rent" is a function of the *net profits which it can make,* not the volume of the sales. On the other hand, the "marginal ratio," that is, the spread between "gross sales" and "cost of sales," reflects the amount of profit. The selling price must always be the greatest *variable,* and such prices are fixed by necessity and adjusted through competition. The levels of land values will always vary with business trends and volume, but whatever the basic level at the moment, it must maintain its own relation and stability. Percentage leases may at times be used to advantage, but they are at best hazardous to both parties and are unsound in principle. If fixed capital and business must get together on some sliding cooperative basis, then let them do it right and go into partnership where property returns are directly related to business earnings.

Certainly, under any circumstances, where a percentage lease is up for renewal, the landlord should demand and is entitled to protection whereby a "minimum" clause would be inserted in an amount to provide at least his direct property expense and carrying charges. The "rate" should be such that in the light of past performance and reasonable future expectancies it would produce ultimately a return which, if not sufficient to satisfy his initial investment, should at least be consistent to some degree with the profits to be realized by his tenant and made possible by the use of the property.

♠ ♠ ♠

Appraising Property Under Percentage Lease

By STANLEY ROE

I AM going to be rather free in expressing myself as to the process which I think proper in the solution of a simple appraisal problem involving the occupancy of a small building by a tenant under a percentage lease which will expire shortly. I assume a simple problem for two reasons, the first being that it will be easier in explanation, and the second in order that at least the initial discussion of this subject will be easy of comprehension to those who may not have had active experience in such matters. Undoubtedly there will be those who may desire to expand my thought in this matter as it is expressed in this article, and bring to those who are interested definite examples of the treatment of actual problems involving properties subject to percentage leases.

Let us assume that an appraiser receives an application for an appraisal report upon a small, one-story brick store building containing only one store. The owner of this property has executed a lease for the store which has been in existence from, let us say, May 1, 1930 and is to expire on April 30, 1935. This lease provides that the tenant is to occupy the demised premises for the sale of men's haberdashery, and is to pay to the owner of said premises a sum equal to 8% of his gross volume of business as rental for the store.

Perhaps the first question which may come to the mind of the appraiser will be as to what it is that he is called upon to appraise. The owner of the property, of course, wishes an opinion as to the value of his property. I do not wish at this time to enter into a condemnation of the summation method of appraisal, but I believe it will be obvious to those who read this article that predicated upon a set of circumstances similar to those which will appear herein, the summation method would unquestionably produce as a final figure an amount which would be quite at variance with the result obtained from what many people now choose to call an "economic appraisal."

With such an application at hand the appraiser is called upon to give his opinion as to the value of this "property" and if he is familiar and in accord with the "Standards of Appraisal Practice" he immediately perceives that it is not the land and physical improvements upon which he is going to issue his opinion, but upon "all the rights to future benefits" arising from the ownership of this particular property. It is also immediately apparent to the appraiser that the owner of this property has transferred to his tenant all the rights he had, prior to the execution of the lease, to the actual *use* of said property, in exchange for which transfer he is to obtain a series of benefits, these benefits to come in the form of a series of rental payments based upon the gross volume of business transacted by the tenant in the demised premises.

After the Expiration Date

At least for the duration of this particular lease, then, the owner may secure no benefits from his property other than the series of rental payments which come to him by the terms of the lease, such series being, of course, dependent upon the gross volume of the business transacted by the tenant in the premises. It is that period *beyond the expiration* of this percentage lease which should particularly concern the

appraiser. Undoubtedly it will be the logical desire of the owner to continue to lease the premises upon the expiration of the existing percentage lease, from which demise he will, of course, expect to obtain another series of monetary returns. With this thought in mind, and again with reference to the "Standards of Appraisal Practice," the appraiser determines that the property is an investment property, producing or capable of producing benefits in the form of net earnings. Having thus classified the property, the next step in the appraisal process will be to estimate as a time-series the future benefits arising from ownership of this property. This series will consist of a forecast of net earnings from the date at which the value obtains over the remaining economic life of the improvement, and a forecast of the amount which can be obtained for the remainder of the property at the end of its economic earning period.

Now let us go back to the property itself. It is located in one of Chicago's better outlying business centers in which very few if any vacant stores are to be found. Let us next assume that for the years ending April 30, 1931, 1932, and 1933 the tenant occupying the store in question has done an average annual gross volume of business of approximately $20,000. Thus, we immediately recognize that in accordance with the terms of the existing lease the owner of this property has obtained an average of approximately $1,600 per year for the use of his premises during the first three years of the term of the lease. He is able to furnish to the appraiser monthly statements of the volume of business transacted by his tenant for the months from May 1, 1933, to, let us say, February 28, 1934.

Upon examination of these statements and after making such other investigation as may seem to him necessary, the appraiser comes to the conclusion that for the year ending April 30, 1934, it is likely that the gross business of the tenant will reach $25,000 and will thus produce for the owner the sum of $2,000 for said year, or an average of $166.66 per month. Let us next assume that the appraiser, after having made a sufficiently thorough investigation of the possibilities for the year ending April 30, 1935, reaches the conclusion that the sum of approximately $2,000 is all that the owner of the property may reasonably expect to obtain as rental for said year. This process brings us to the termination of the existing percentage lease, and we are, of course, obliged to continue our earnings estimate from this point forward.

Highest and Best Use

It is at this point in the appraisal process that the appraiser requires a knowledge and an ability beyond that through which he makes his ordinary mathematical computations, which in some quarters are thought to produce "values." He is required to have the ability to determine what, in his judgment, is the highest and best use to which the land forming a part of the property in question can be put, meaning by the phrase "highest and best use" that improvement which will produce the greatest possible residual net return upon the land, elements of risk having been given due consideration. Let us suppose, for the sake of this article, that it is the determination of the appraiser that the type of improvement which now exists represents the highest and best use for the land in question.

The next determination which must be made by the appraiser is as to what business, which, if properly conducted, will produce for the owner of this property the greatest amount of annual rental, or, in other words, the greatest

benefit (monetary) which he may derive as the owner of the property. It will be necessary in such an instance for the appraiser to ascertain from one source or another which he may consider reliable two things: the first of these will be the rentals being paid for similarly located stores within the same district, and the second, the volumes of business of the various types of tenants occupying store spaces in the immediate vicinity of the property in question.

It is hardly likely that it will be impossible for the appraiser to ascertain this data, but should he feel that he does not have it in sufficient volume pertaining to this particular district, he may, of course, feel free to base his judgment upon this same type of material which he may be able to obtain for districts which, in his opinion, are sufficiently similar to warrant direct comparison. The appraiser should also either through his own personal experience or otherwise be acquainted with the varying percentages of gross volume which various types of businesses can afford to pay as rental.

Monthly Rentals in the District

Let us assume that the appraiser finds that stores of similar location in the same business district in which the property in question is located are producing monthly rentals of from $200 to $250. Let us also assume that from various statistical information which the appraiser may have or obtain with reference to the area supporting the business district in question, that a modern, progressive meat market might reasonably be expected to produce a gross annual volume of business of approximately $45,000 to $50,000 per year. Based upon this estimated gross volume of business it may be the opinion of the appraiser that at the expiration of the existing lease it will be definitely to the financial advantage of the owner of the property to endeavor to secure as a tenant for his store such a meat market or some other type of business which, because of its probable volume of business, should a percentage lease be executed, or whose ability or willingness to pay should a "straight" lease be employed, will bring to him the greatest possible gross income from his property.

It is within the province of the appraiser in such a problem to assume that upon the expiration of the existing lease, particularly in the event that it does not produce for the owner what in the appraiser's opinion is the greatest possible annual return, a tenant can and will be found who will put the property in question to what might be termed the "secondary" highest and best use.

In this manner the appraiser may continue his forecast of future earnings to what in his opinion is the end of the remaining economic life of the improvements forming a part of the property in question. Having completed this forecast, which in such an instance would of course be a forecast of gross rather than net earnings, the appraiser may then continue in such a manner as will produce for him a time-series of annual net earnings for the entire duration of the economic life of the improvements. The manner in which he may treat this series of net earnings is not properly a part of this discussion; however, the appraiser must constantly bear in mind that it is from this projected series that his final determination as to the value of the property will come.

Considerations in Appraising Industrial Property

By ARTHUR L. LAYDEN, M.A.I.

JUST what property should be classed as industrial property is a moot question. Where the line of demarcation should be drawn between this and other kinds of property is exceedingly hard to decide. Any property used for the manufacture of goods from raw products, or used for changing semi-finished goods into finished products, is, undoubtedly, industrial property. Should warehouses be classed as industrial property? Should acreage along a railroad near a large city or a manufacturing center be classed as industrial property or as farm property? How should loft buildings in the business center now housing concerns manufacturing dresses or deep water property be classed?

In many cities industrial property is considered as that employed for heavy manufacturing only. In and around Los Angeles, nearly every property, on which the zoning will permit manufacture, is classed as industrial property. This is partly due to the fact that there is here no concentration of any particular type of industry, such as there is around Pittsburgh, Akron, and Detroit.

In this discussion warehouse property will be eliminated from consideration, as its value can be determined from an income viewpoint—either its own, if rented, or that of comparable property, if occupied by the owner.

Perhaps no type of property is so difficult of evaluation as industrial property, for none have so many things to be considered in arriving at its highest and best use. As industrial acreage commands a higher price than farm property, every owner having property along a railroad and within twenty miles of Los Angeles considers his land as industrial property.

On account of our diversified industries and the variance of the requirements of each—who can say definitely whether a given site is or is not industrial? In many cases, it would ordinarily be waste land; but it may have sand and gravel possibilities or its topography may be such that it is untillable. The hills and the valleys each have their uses, however, as will be explained later; so even the possibilities, and not just the probabilities, must be considered. On the other hand, the same situation as that respecting business property is true. It has been said that based on the ratio of business property actually in use per capita there is enough property zoned for business here to care for fifty times the population of most cities. It might also be said that if all the so-called industrial property in Los Angeles County were utilized by industries the manufacturing for the nation could be done here.

The owners of much of this type of property will pay out great amounts in taxes before even a small amount of it is sold or used for industrial purposes.

Non-Speculative

Industrial property must fit the industry; it is *not* a speculative investment—it moves slowly—in a declining market it "freezes" quickly. It "freezes" hard and "thaws" slowly. Its values cannot be arrived at from its earnings or the profits of the industry, as these depend so much on the ability of the management. For insurance purposes or for a merger, replacement value less depreciation and obsolescence would perhaps be the best method; but for all other pur-

poses the warranted value is best obtained by specialized training, experience, common sense, and knowledge of values.

Depreciation and Obsolescence

Depreciation and obsolescence in improved industrial properties vary exceedingly. Depreciation varies with the tenants, with the type of business, with the finances of the concerns, with their interest in the property, and with the type and suitability of the improvements to the business.

Obsolescence is greater than in most other types of property due to the struggle to lower manufacturing costs to meet or beat competition or to the introduction of modern methods or new inventions which require radical changes in building plans, flow of work, et cetera. One excellent example is the brewing industry. Practically every brewery in the United States has become almost completely obsolete since prohibition on account of new methods of brewing and refrigeration, the greater use of the automobile for trucking, and, in some cases, in changes of city ordinances.

Over-, under-, and misplaced-improvements are most frequently met with. Extravagant buildings are a monument to the builder but generally bring little value to the industry.

Varied Requirements

Each type of industry has certain definite basic requirements and each particular industry of any type has certain special requirements of its own. In any locality there may be only one of a possible ten or one hundred industrial prospects which can use any particular tract or site and conversely there may be only a few sites that will fit any particular industry, while for any residential farm or business property there are many buyers who can use any place advantageously and any of these can perhaps equally as well use any of one hundred or more possible locations. A property suitable for a glass plant would not be suitable for a slaughter house, an exporter, or a gasoline refinery.

Basic industries convert the raw products of the farm, the forest, the mine, or the sea into some finished or unfinished products ready for further production or for consumption. They generally come under the classification of "heavy" industries and ordinarily require considerable ground area. Minor and subsidiary industries take the semi-finished articles and change them into the finished product. Warehouse and deep water property serve as concentration points for the distribution of the raw or finished products.

The following outline will give some of the factors to be considered in the appraisal of industrial properties—they are the same factors that the industry considers in the selection of a location. Some of them appear more than once as they have to be considered from different aspects. The aspect from which they are considered depends largely upon the industry. Following the outline are actual examples showing how certain conditions influenced the location of various industries. Also further amplification of the outline will be given.

I. LOCATION
- A. Proximity to markets
- B. Proximity to source of raw materials
- C. Accessibility
  1. To Bus and street car lines for labor and customers with time schedules
  2. To Banking facilities and business districts
  3. To Truck Lines
  4. To Rail transportation
  5. To Water shipping facilities
  6. To Pipe lines for fuel oil
  7. To similar or related industries
  8. To telephone (Service — toll charge)
  9. To mail deliveries
- D. Adjacent area for expansion.

II. TOPOGRAPHY
- A. Adjacent low lands for disposal of waste
- B. For drainage and flood control
- C. Cost of building
- D. Handling of materials by gravity
- E. Sewage Disposal

III. LABOR SUPPLY
- A. Skilled and unskilled—type
- B. Union or open shop
- C. Adjacent housing facilities

IV. BUILDING COSTS
- A. Ordinances
  - 1. Building restrictions
  - 2. Fire ordinances
- B. Soil Conditions
  - 1. Bearing qualities
  - 2. Drainage costs
- C. Climate
  - 1. Necessity of heating and cooling
  - 2. Snow loads
- D. Upkeep costs
- E. Easements and Rights of Way
- F. Size and shape of site

V. PUBLIC UTILITIES
- A. Paved streets or highways
- B. Sewage disposal
- C. Storm drains and flood control
- D. Gas
  - 1. Natural or artificial
  - 2. B.T.U. rating
  - 3. Rates
- E. Water
  - 1. Municipal (or private companies)
    - a. Rates
    - b. Availability of supply needed
    - c. Analysis (chemical)
  - 2. Possibility of subterranean development
    - a. Depth
    - b. Cost of wells
    - c. Cost of pumping
    - d. Analysis at various depths (chemical)
    - e. Supply available
- F. Power
  - 1. Alternating or direct current
    - a. Voltage
    - b. Cycles
  - 2. Rates
- G. Fuel Oil
  - 1. Cost delivered
  - 2. B.T.U. Content
- H. Truck Service
  - 1. Free trucking pickup limits
  - 2. Tariff schedules
- I. Railroads
  - 1. Same line as origin of raw materials
  - 2. Same line as majority of distribution
  - 3. Belt line facilities
  - 4. Availability of drill or spur tracks
  - 5. Proper location to serve industry without cutting site awkwardly
  - 6. Car spot necessary
- J. Fire and Police Protection
  - 1. Insurance Rates

VI. OPERATING COSTS
- A. Taxes and Tax rates
- B. Labor costs
- C. Advertising value
- D. Public utility rates [As under V (E to I) above]
- E. Insurance rates
- F. Climate
  - 1. Cost of heating and cooling
- G. Freight Rates
  - 1. Switching charges
  - 2. Raw materials
  - 3. Finished products
  - 4. Balancing cost of land against cost of switching
    - a. Class and amount of raw and finished materials

VII. RESTRICTIONS
- A. Zoning
  - Restrictions as to operation (specialized use)
- B. By deed
- C. Set back
- D. Fire Districts
- E. Possibility of changes
- F. Easements

VIII. EFFECT OF AREA — Location and Dimensions on
- A. Plant efficiency
- B. Management control
- C. Building costs
- D. Economy of operation
- E. Economy of distribution

IX. INTEREST RATES AND MONEY SUPPLY
- A. Promotion
- B. Financing

X. ASSESSMENTS
- A. Present Matoon Act
- B. Prospective

XI. COMPETITIVE DISTRICTS AND VALUES

XII. SUPPLY AND DEMAND
- A. Rate of absorption

Location

Many of the so-called "heavy industries" are basic industries; and they generally decide to locate in some particular section because of either (or both) a proximity to their source of raw materials or to their market for their finished products.

The Pittsburgh Plate Glass Company had a good, established market on the Pacific Coast and, because of

the location of several automobile assembly plants in and near Los Angeles, a much larger prospective market developed. Selection of a site depended primarily on the best and cheapest supply of raw materials. One of their requirements was a glass sand, free from iron, lead, and magnesia; and the other was a sharp sand for polishing purposes. The best and cheapest known source of glass sand was in Belgium. This sand comes in as ballast and the import duty is low. It can be delivered on the Pacific Coast cheaper than other glass sands from the Middle West. Large deposits of an excellent quality of polishing sand are available at several locations. Other major requirements were low land adjacent to the factory site for the disposal of the waste polishing sand and a cheap and abundant water supply. Only two sites seemed to meet the requirements: one at El Segundo and one at Santa Ana. They chose the latter because a water supply could be more cheaply developed there.

A large maufacturer of corn products could get raw materials in many locations but chose a site near Los Angeles because it was the center of the greatest buying power and the point from which the finished product could best be distributed.

Since the legalization of beer there has been great competition among brewers for sites. Their two major requirements are a supply of water free from minerals, hydrogen sulphide, and vegetation; and a site most centrally located and most accessible to the area of greatest consumption.

The Site

In most industries, cost of the land is the prime factor, as many of them can use any one of several available sites. Only in those industries having special primary requirements is the cost of the site of subsidiary importance. Most industries like to locate close to or within easy access to either or both their competition or to those from whom they buy or to whom they sell.

Size and shape are very important. Nearly any industry can operate more efficiently on a rectangular parcel than on a triangular or odd-shaped one. One approaching a square is generally more desirable. In the Goodyear Tract most of the parcels that have been improved are rectangular sites, while the so-called "bullnose" parcels cut up by railroad tracks are nearly all vacant. Some industries can operate best on a parcel long and narrow. A site having a frontage on a street of say 300 feet and a depth of 100 feet with trackage at the rear is generally more valuable than the same size site with 100 feet frontage and 300 feet depth because of greater "car spottage" and greater accessibility for trucks. It is also more adaptable to division.

If a site does not have trackage, investigation should be made as to whether it is available and at what cost. Some sites cannot be served without crossing land of another owner. Costs of easements are often prohibitive, or the railroad may be so far away that the cost of a track to the site is excessive. Sites may also be very much above or below the grade of either the street or the railroad. This factor has a marked influence on values.

The prominence, width, covering, and grade of the street needs careful consideration. Many industries require prominent locations on major highways; others, doing much trucking, prefer to be on side streets. Such side streets should be wide and in good condition.

Topography

Topography is of vital importance in many industries. Oil refineries with large tank farms can operate much

more cheaply on rolling ground where at least one handling of the crude or refined oil can be done by gravity. Rolling ground lowers the cost of building reservoirs or earthen retaining walls around tanks to reduce fire hazards and losses in event of destruction of tanks.

Powder factories generally locate on rolling or hilly sites with the buildings in the valleys separated by hills as a protective measure against accidental explosion.

Low lands adjacent to manufacturing sites are necessary in many industries for waste disposal; as, for example, the glass plant spoken of above, steel plants, smelters, foundries, brick plants, etc.

For most industries, however, level or gently sloping land is preferred.

Chemical industries and tire plants require ample sewage disposal facilities for waste products. The local tire plants dispose of millions of gallons of cooling water daily. They require a site where they can develop their own water in sufficient quantities, and dispose of it after it has been used.

Building Costs

City ordinances often make building costs prohibitive for some particular industry. The same is true of Fire ordinances. This partly accounts for the development of the city of Vernon by the heavy industries. Their ordinances are lenient and their land values are relatively higher than in adjoining cities.

Gas, water, or oil line easements across a tract frequently prohibit building in the most advantageous locations, because foundation costs are so great.

Soil conditions should be such that there is good drainage; and the bearing qualities should be good enough to care for the heaviest type of construction. Swampy or filled ground may require piling and heavy foundation costs. There is one section in southwest Los Angeles where the land is underlaid with a peat bed. It is doubtful if any permanent foundation could be obtained there.

In districts where there are fire hazards or poor water supply, insurance rates will be high; and a better type of building than would otherwise be necessary is required, or an auxiliary fire prevention system must be added thus reducing land values.

Shape of site must also be considered in this regard as it will not only effect the utilization of the site but will effect the cost of building on it. A square or even rectangular building is cheaper to construct than a triangular or odd shaped building of the same floor area.

Transportation

Generally speaking, for most industries, rail transportation is the prime requisite. Many small industries may not need it at the time of selecting a location but they are generally planning for the future and demand a location with trackage if they expect their business ever will need it. Moving of machinery from one location to another is very expensive.

Freight rates have an extremely important bearing on the location of an industry. In a basic industry it is frequently the most important item to be considered. On shipments to or from a competitive point (that is a point served by more than one railroad), the line, or long haul carrier absorbs any switching charges. To or from non-competitive points switching charges are added if delivery is made on the rails of another carrier than that on which the shipment originated. There is also another switching charge to be considered. The railroads themselves, or the railroad commission, designate certain arbitrary boundaries around cities as the "free

switching limits". Any shipment within these boundaries takes the line haul rate to that city, but for delivery to any point outside of these limits there is an added switching charge. This charge is added *whether or not* the shipment originates on the same line as that to which delivery is made. For instance, supposing a shipment originates at Santa Barbara, which is served only by the Southern Pacific and is consigned to an industry located on the Santa Fe in Los Angeles. To the line haul rate between these points there would be a switching charge of approximately $2.70 per car. One of the boundaries of the free switching limits in Los Angeles is Firestone Boulevard. If the industry to which the shipment were consigned were located on the south side of Firestone Boulevard — to the above charges there would be added another switching charge which might amount to $6.00 or $7.00 per car. Supposing the industry received ten cars per day and each car cost them $2.70 plus $6.00 added charges; it can easily be seen that it would be much cheaper for them to locate on land costing $10,000.00 per acre north of Firestone Boulevard than on similar land south of this street at $5,000.00 per acre, if the yearly excess charges were capitalized. It can also be seen that of two equally attractive sites at the same price, one on the Southern Pacific and one on the Santa Fe, the former would be cheaper to *that particular industry.* Sites on belt line railroads with no switching charges, or sites served by more than one railroad, are generally more valuable than others not so served.

The truck lines have also established "free pick-up zones" in which they will pick up or deliver at the line haul rate. Outside of these limits there is an added charge. Concerns doing most or all of their shipping by truck should investigate this phase. Outside of this, however, they have fewer worries, as a truck will call or deliver at any location they can get to.

Locations on deep water are generally also served by railroads and are more valuable because of their scarcity. In this class of property, wharfage and dockage charges should be thoroughly investigated. Los Angeles and Long Beach harbors adjoin. Before the extensive harbor improvements were made there, land on the Long Beach side was high ground and most of the land in Los Angeles harbor district was low. The United States government established pierhead lines and the City of Los Angeles dredged out slips and filled in back of the pierhead line. They owned this filled ground. Industries located on private property back of this filled ground must pay the City of Los Angeles a wharfage and dockage charge. In Long Beach where the land was high, slips were cut in and private property fronted directly on the deep water slip and have no wharfage or dockage charges to pay. To the large oil companies and to wholesale lumber concerns, for instance, these charges amount to thousands of dollars per year.

Public Utilities

Variance in tax rates in comparable sites must always be considered. Vernon has a much lower tax rate than Los Angeles; and, although they adjoin, Vernon has attracted most of the heavy industries. Alameda Street is the boundary between these cities. Vernon is served with electricity by the Southern California Edison Company while Los Angeles is served by the Municipal Bureau of Power & Light and the Los Angeles Gas and Electric Company. Industries in Vernon pay 25% more for power than those just across the street in Los Angeles. Vernon is now building its own municipal plant to reduce rates. Ver-

non's water and insurance rates were also higher until very recently.

The frequency of the alternating current supplied by the Southern California Edison Company and the Municipal Bureau of Power & Light, is 50 cycles per second. That of the Los Angeles Gas & Electric Company is 60 cycles per second. A 60 cycle motor will operate on 50 cycle current but at only 83% of the rated speed and a 50 cycle motor will run at 116% of the rated speed on 60 cycle current. This item is of major importance to woodworking concerns. The faster a planer runs the less sanding of the finished product is necessary. An Eastern manufacturer, where nearly all electricity is supplied at 60 cycles, moving his plant out here would have to install an expensive frequency changer to get desired speed unless located on the Los Angeles Gas & Electric lines. In the downtown section of Milwaukee, direct current is available at approximately 500 volts and alternating current at nearly any voltage and at either 25 or 60 cycles. This is true in many Eastern cities. A knowledge of what is available at any site is necessary.

Until recently, in some locations near Los Angeles it was possible to get a supply of natural gas. In others, only artificial gas was available. A brick, tile, terra cotta, vitreous china, glass, or steel manufacturer, or any concern burning large quantities of fuel would operate much more economically if he were located on a natural gas line, as it contains 1,100 British Thermal Units (B.T.U.) per cubic foot as against 550 B.T.U. for artificial gas and 850 B.T.U. for mixed gas (half and half). I believe all gas now supplied is mixed.

Coal is not burned in California where fuel oil and gas are so abundant and cheap—other things being equal. The cause of manufacturers in cities on the Great Lakes locating on deep water is that they can buy their coal so much cheaper.

A few years ago in the San Francisco Bay district there were seventeen yards manufacturing common brick. They all had the same facilities except that a new plant located on a fuel oil pipe line and the factor of cheaper fuel made it possible for this producer to manufacture cheaper and hence undersell his competitors,—with the result that today there are only five plants there.

In California, water is relatively scarce. It is, therefore, valuable. Brewers, as mentioned before, dyers and some chemical concerns, need water with certain qualities. The municipal supply may not have those desired, hence a subterranean supply is necessary. It is also necessary when great quantities are used as it can be developed at a cheaper cost than the municipal supply. Tire companies require enormous quantities of water for cooling; and, before locating, they all made extensive surveys of the underground supplies. Many of the smaller cities are developing their water supply from underground sources. The drain on this supply has lowered the water table greatly. Some areas that years ago had artesian wells, must pump with a lift of 500 or 600 feet. Others produce at 80 feet, but I do not believe there are any artesian wells in this territory now.

Sufficient sewage facilities must also be available. This is very important with the chemical, tire industries, slaughter houses, etc.

Labor Supply

Unskilled labor is generally available in any quantity, but labor skilled in some particular line is not always abundant. The textile industries located where they are now because that was where the greatest supply of labor skilled in that line was available. Factories locating away from a supply

of labor skilled in their lines frequently import key men to the new location and these train others for positions of lesser responsibility.

A concern manufacturing men's and ladies' hats from rabbit fur, recently decided to locate here on account of an excellent market, quicker delivery to customers, cheaper rabbit skins, and more efficient production. There were no other factories nor any skilled labor west of Philadelphia, Pa., and Danbury, Conn. They imported twelve skilled men for the key positions. These men trained others. The factory is now operating very successfully. A bakery using a particular process had to import nine key men from New York State.

Canneries locating in the center of a fruit growing district have often found they have been disadvantageously located because there was no available labor supply.

In cities, housing facilities in the immediate neighborhood are not as essential as formerly on account of the use of the automobile and other means of rapid transit. Most laborers now seem to want to live away from their work. This is evidenced by the failure of some subdivisions designed to supply homesites adjacent to large factories. The Firestone Park Tract across the street from the local tire plant is practically undeveloped. One good exception is the city of El Segundo laid out for employees of the Standard Oil Company's refinery. Most of the citizens there work at the refinery and very few of the employees live in other sections.

Climate

Climate frequently influences prices. San Fernando valley prices are generally lower than for equally close-in property between the city and the harbor, partly because industrial growth in the latter direction is more natural, but also because of the summer heat in the former. This heat and dry climate however, for some industries is a desirable feature. A silk mill located near the ocean has had considerable trouble in weaving and spinning, and one silk hosiery concern made this climatical condition their main requisite, locating along San Fernando Road. Printing concerns also require a dry climate.

Supply and Demand

Supply is particularly important for certain types of industries such as stock yards, slaughter houses, fertilizer plants, oil refineries, chemical plants, plants emitting obnoxious odors or dust, explosive plants, glue factories, etc., for such plants will not be allowed to locate as they please.

On the other hand, for most types of industries there is a great over-supply of land. Unless a site, therefore, has some exceptionally rare characteristics it is a poor speculation, as the rate of absorption by new industries is slow. Sales are infrequent and, generally speaking, asking prices are all above what may be termed "market value".

The Regional Planning Commission of Los Angeles County recently started a survey of this county, in which for convenience they divided that part to be surveyed into seven sections. Reports have been completed on two of these. It was found that there is an average (which is held to very closely in all sections) of one industry per 1,000 population, and that the average size of ground occupied per industry is approximately 2.5 acres.

With the thousands of so-called industrial lands available, it is easy to be seen that all of it *never will be* used and that the rate of absorption of the best of it will be very slow.

Economic Conditions

In normal times when industries are making a profit and are expanding,

sales will be frequent and prices will go up. In poor times industries retreat and industrial land is one of the first things to suffer. As said before, "It freezes first—it freezes hard—and it thaws out slowly". Most of it is vacant and producing no income, and the interest and carrying charges are eating it up.

Balancing the Factors

The value of a site is greatly influenced by its cost of duplication.

The value of the land of a "going concern" correctly located and with good prospects of continuing to operate profitably, is, I believe, greater than comparable *potential* industrial property.

In the brewery spoken of above, the problem was balancing the value of the right kind of water supply against the cost of distributing the product and against the cost of various sites. For large shippers the cost of land is balanced against transportation costs. For many industries free land in certain locations would be very expensive. In the location of every industry there is a balancing of the most important factors to that particular industry. What may be a vital factor in the selection of a site for one industry may be of only minor, of no importance, or even detrimental to another.

Industrial land in California having Matoon Act assessments against it—if the assessments are on a large district—is practically worthless until the assessments expire, as assessments cannot be paid off against any particular parcel and industries will not assume this load of uncertainty when they have a heavy investment. It should be treated as the present worth of the reversion of its reasonable value at the time the assessments expire, at a large interest rate on account of the many other properties involved and the vagaries of ownership in each.

♣ ♣ ♣

Finding Reproduction Cost

By H. VANDERVOORT WALSH

FINDING the reproduction costs of a home is not entirely a problem of mathematics. A good deal of ripe judgment is needed. Cost data and calculations are required, but the final results must be modified by the intuitive sense for values which only experience can sharpen. Appraising the value of a house is not like estimating its cost for construction purposes. A contractor preparing figures for a bid on new work makes careful surveys of materials and does a good bit of shopping with subcontractors in the mechanical trades.

The appraiser of a house already constructed cannot do this, nor use such time-consuming methods. His procedure must be shorter, less accurate, and more dependent upon good judgment.

The first and obvious step in arriving at a basic understanding of the reproduction cost of a house is to get a clear outline of all of the items which have gone into it. Not just the amount of the labor and materials, but a list of all of the additional features, such as water and electric service, kitchen equipment, oil burner, etc., should be noted. As a guide in doing this, the following checking list is offered:

Features to Be Observed Before Appraising a House

1. Water service—city or well.
2. Electric service—utility company or private.
3. Mechanical equipment:
   A. Type of heating plant.
   B. Method of firing—hand, oil burner, stoker, or gas.
   C. Number of bathrooms and grade of fixtures.
   D. Cold and hot water service and type of water heater.
   E. Type of kitchen stove.
   F. Type of refrigerator.
   G. Kind of sewage disposal—septic tank or street sewer.
   H. Incinerator.
4. General type of construction: All wood frame—wood interior, masonry exterior—all fireproof.
5. Quality of house:
   "A" quality—Usually built for private owner under supervision of architect.
   "B" quality—usually built for speculation in high grade real estate development or for a private owner by a contractor without supervision of an architect.
   "C" quality—Usually typical cheap speculative house of standardized design.
6. Special features to be noted:
   A. Weatherstripping.
   B. Insulation.
   C. Screens.
   D. Built-in furniture.
   E. Quality of painting and decorating.
   F. Roofing and flashing materials.
   G. Condition of cellar space.
   H. Finish of attic space.

Complete notes on the house along the above lines will help in finally passing judgment on the general value of the house.

The next step is to obtain enough measurements of the house to be able to calculate the cubic feet volume. Rules for making such an estimate are very important, because every house must be measured in the same way to allow real comparisons between one and another. The following represents the accepted practice:

1. Compute the full volume of the following parts of the house:
   A. Bay windows, dormers, chimneys, vaults, pits, enclosed porches.
   B. Enclosed space within exterior walls and roof rafters, and all enclosed porches and attached garages.
2. Compute only a portion of the following parts:
   A. ⅔ volume of open porches built into body of house.
   B. ½ volume of porches attached to house but not enclosed.
   C. ½ volume of all areaways.
3. In taking off heights, measure from cellar floor up, but where there is no cellar from 2 feet below beams and up.
4. Calculate full volume of all attic spaces.

By always following the above rules

in calculating the cubic contents of a house, a method of comparison is established between one house and another. Where two houses are constructed in a similar manner and are equipped with equal mechanical devices, then their cost can be compared on a volume basis. For example, if one of these houses has 35,000 cubic feet and its actual cost of building is known to be $10,500.00, exclusive of architect's and builder's fee, then by simple division it can be established that the cost per cubic foot is 30 cents. Then if the other house has a volume of 30,000 cubic feet and is similar in all respects as to equipment and quality of materials and workmanship, the cost of such a house should be 30,000 × 30 cents or $9,000.00. Adding 20 percent to allow for architect's and builder's fee, the cost of reproduction would be $10,800.00.

This comparison of costs by volume is sound only when all the factors of one house are equivalent to those in the other. Such factors as (1) current market value of labor and materials, (2) quality of architecture and construction, (3) quality and amount of mechanical equipment, and (4) amount of usable space in proportion to attic and cellar.

It is usually impossible to have all of the above factors near enough alike to make a real comparison between a house of known cost and one to be appraised. That is the reason why this method of estimating is often misleading when used without sound judgment behind it. For example, I can quote here the cost per cubic foot for the three grades of houses, referred to in the checking list, as I know them in the New York area to be as follows:

"A" quality houses—35c to 45c per cubic foot.
"B" quality houses—30c to 35c per cubic foot.
"C" quality houses—25c to 30c per cubic foot.

This information, however, is not very useful to anyone in appraising a house, since it does not account for special conditions, price levels, amount of mechanical equipment, etc. The information that the appraiser first requires is the actual cost of houses in the community in which he is working in order to work out cubic foot costs to suit his problem.

For that reason, let us consider a procedure for analyzing the component parts of the cubic foot cost. Let us go back to the beginning and recognize that the cost per cubic foot is found by dividing the total cost of the house by its volume in cubic feet. Thus, on a small scale, the cubic foot price becomes a model of the total Price. Suppose it is found to be 32 cents. Then everything that went to build up the whole cost of the house contributes a few cents or fraction of a cent to build up this cubic foot price. For example, if the plumbing is 9 per cent of the total cost of the house, then 9 per cent of 32 cents, which is 2.88 cents, is that portion of the cubic foot price contributed by the plumbing. At all times, then, the cost per cubic foot is a small scale reflection of the whole cost.

Therefore, if we had cost data on a certain house with three chimneys and five bathrooms and computed the cost per cubic foot of this house, we could not apply this to finding the cost of another house with only one chimney and one bathroom, without some modifications.

Accordingly, the first step in getting useful cubic foot costs is to take up a few houses in the community for which price data is available and break up the entire cost into trades in order to see what relation each bears to the total. Let us take an example to illustrate this point. Suppose that the cost of each one of the following trades for a wood-frame house was known and then the percentage of the whole cost that each

represented was computed and we found them to be as follows:

Excavation	5 %
All masonry	12 %
All carpentry	33 %
Lath and plaster	8 %
Tiling	3 %
Roofing and sheet metal	5 %
Electric wiring	2½%
Electric fixtures	1½%
Finish hardware	2 %
Plumbing	9 %
Heating	12 %
Miscellaneous	2 %
Painting	5 %

Assuming that the house under consideration has 57,400 cubic feet and by calculation it is found that it costs 32 cents per cubic foot, without architect's or builder's fee, then each item listed builds up that cost per cubic foot in the same proportion as it does with the whole. We can break it down as follows:

Excavation	5	% of total	=	1.60c
All masonry	12	% " "	=	3.84c
All carpentry	33	% " "	=	10.56c
Lath and plaster	8	% " "	=	2.56c
Tiling	3	% " "	=	.96c
Roofing and sheet metal	5	% " "	=	1.60c
Electric wiring	2½	% " "	=	.80c
Electric fixtures	1½	% " "	=	.48c
Finish hardware	2	% " "	=	.64c
Plumbing	9	% " "	=	2.88c
Heating	12	% " "	=	3.84c
Miscellaneous	2	% " "	=	.64c
Painting	5	% " "	=	1.60c
Total per cubic foot				32.00c

With an analysis like the above and a complete knowledge of the type of house and its make-up, we would then have a very fine measuring unit to apply to another house that is slightly different, but somewhere near this one in volume.

Let us imagine that the other house has 50,000 cubic feet and that it differs on the following points: (1) all tile bathrooms are finished with plaster, (2) instead of a slate roof it has a wood-shingle roof, and (3) instead of three bathrooms and a lavatory it has only two bathrooms.

Examining the make-up of the 32 cents per cubic foot, we might reason as follows: By eliminating the tiling from the bath we can deduct .96 cents and by changing from slate to wood shingles we might take off about .5 cents and then by reducing the number of bathrooms to two, it would be reasonable to take off another cent. Adding these deductions together, .96 plus .5 plus 1.0, which equals 2.46 cents, we can say that in estimating the cost of the unknown house we could use (32 cents less 2.5 cents) or 29.5 cents per cubic foot,

Therefore, multiplying 50,000 cubic feet by 29.5 cents we get $14,750.00, and then adding 20 per cent for the architect and builder, the cost to reproduce the house should be $17,700.00.

Information on cubic foot costs, gathered and analyzed in this manner, dated, and current prices of materials and labor noted along with it, can be adapted to wider and wider use. For example, in the community in which an appraisal is to be made, there may be no houses of recent construction from which to draw this information. However, the local building material prices and labor prices can be secured, and then, by proportional relationships, the cost per cubic foot can be arrived at from data found elsewhere at a different scale.

A good deal of "cost-sense" is required to make these final adjustments in price, but analyzing the problem in this manner is the intelligent way to proceed. The common practice of applying average cubic foot costs in making appraisals is wrong when it comes to country houses, because the cost of the house is so sensitive to the parts which go into it. Total costs fluctuate greatly with changes in specifications. This is not so true with large scale work in cities where custom and the building code standardize the practice a good

deal more. The appraiser, though, seeking to determine the reproduction costs of private homes should take these factors into consideration.

The smaller the house, the more its total cost is influenced by changes in specifications or by changes in numbers of bathrooms or chimney. Small houses of only 20,000 or 25,000 cubic feet are very much influenced in cost by the slightest changes, because everything in them is measured in hundreds of dollars and not in thousands. In a 20,000 cubic foot house costing $5,000.00 the plumbing may run $450.00 for one bath and kitchen sink, but this figure might easily jump up to $550.00 if the specifications are very elaborate. Every $100.00 is 2 per cent of the total cost, and this is quite an item. It is possible to take the same volume and same house and vary its cost from $4,800.00 to $6,000.00 by merely changing the specifications.

The smaller the house, the greater proportionately to the whole cost is the cost of the mechanical equipment that is put into it. This is due to the fact that there is always a minimum amount of such equipment required. For example, a single house cannot have less than one bathroom and a combination kitchen sink and tub. The installation cost of such a plumbing plant is about $375.00. No matter how small the rest of the house may be, this minimum plumbing cost cannot shrink. Likewise, the lowest cost of a one-pipe steam heating plant gets down to about $300.00. When the house becomes very small, this cost will not decrease. The cost of oil-burners is fixed within a range of about $350.00 to $450.00. The smaller the house, so much greater in proportion does the cost of an oil-burner become. In fact, I have known cases where the cost of the cellar was the same as the cost of the oil-burner. Whereas in the larger house the total cost of plumbing, heating, and electric wiring runs about 22 per cent of the total cost, as the house becomes smaller and smaller in volume this relationship of the equipment cost to the whole changes. In making any appraisal, such factors should influence the final analysis.

There are other observations to be made when using the cubic foot system of estimating. Unfinished attic space actually costs less per cubic foot than the finished space below, because all of the mechanical equipment is omitted. Now if the cubic foot cost is derived from a house having, say only one-sixth the volume in unfinished attic space, then such a unit cannot be applied correctly in estimating the cost of another house in which the unfinished attic space occupies one-fourth the total volume. An old trick of speculative builders was based upon this. They, knowing that the estimators for the bank figured the cost of proposed houses by taking the cubic contents and multiplying by the cost per cubic foot, would prepare plans for houses that had large attics. Thus the estimator would be bound to overestimate the cost of the proposed houses and grant a larger building loan. So in making appraisals due consideration should be given to the relationship between attic space and the body of the house.

In the public's mind the greater value of the house with exterior walls of brick, concrete, or stone is exaggerated. An appraiser may also be influenced by this belief. However, he should realize that there is not so great a difference. This is due to the fact that the cost of exterior walls to the total cost of the house is only about 10 per cent. Thus any variations in cost brought about by variations in the construction of exterior walls must fall within this 10 per cent. Usually about $300.00 to $500.00 is all that is involved in the average house.

The Use of Tables and Formulas in Real Estate Appraisals—II

(Continued from the January issue)

By IVAN A. THORSON, M.A.I.

STANLEY McMICHAEL recently made a very pertinent remark. He stated that formerly we did not spend enough time on the mathematics of appraising. We simply capitalized our net earnings in perpetuity and let it go at that. Now, he suggested, we are apparently going to the other extreme. For a while we attempted to forecast in actual figures just what the income stream would be over the entire earning life of a building, which sometimes would extend over a period of from forty to fifty years. Finding ourselves in rather untenable positions by so doing, we have attempted to do more or less the same thing through the employment of tables and premises. It has complicated the whole appraisal procedure in a manner to make it unacceptable to many institutions and individuals requiring our services, and has made it more or less incomprehensible to most appraisers, without a corresponding gain in accuracy. I believe that Mr. McMichael has expressed what has been in the minds of many of us for some time.

In my article in the January number the derivation of the various annuity tables was brought out. It was shown that they all were a development of the compound interest formula in its simplest form, $(1 + R)^n$.*

*Through the fact that my article was sent in too late to enable the Editor to return copy to me for proof reading, I am repeating here the footnote appearing on page 120 of the January issue in its corrected form, as follows:

The expression should read $[1 + (R \times 1)]$, which equals $(1 + R)$ when the sum is one (1). Should the sum involved be other than 1, say, S, the expression would remain $[S + (R \times S)]$. To build tables and coefficients, 1 (unity) is used for obvious reasons. The Irwin Coefficient for the present worth of (1) per annum should be:

$$\frac{1 - \frac{1}{(1+i)^n}}{1}$$

Permit me to repeat one paragraph of my January article with corrections:

"The sinking fund factor, as are all the other factors that we have considered, is derived from the compound interest formula. By dividing the Present Worth (P.W.) into 1 (the reciprocal of the P. W.) we will get a sum which will be equal to a return on the investment, (1), at the rate per cent selected, plus an amount which if placed at compound interest for three years, at the same rate per cent, will accumulate to 1 (that is, to the amount of the investment). In other words,

$$\frac{1}{\text{(P.W. of 1 per annum for 3 yrs. at 6\%)}}$$ would be

$\frac{1}{2.67300}$ or .3741+;

that is, this factor will include 6% (.06) on our investment, plus an amount which, as stated, will accumulate to the amount of the investment (represented by 1.) if a 6% compound interest rate is used. Deducting the simple interest return on the investment from this factor gives us .3141 (.3741 — .06 = .3141). This annuity (.3141) is sometimes referred to as a "sinking fund." It may be applied in a variety of ways, such as to scale down the amount of the investment year by year, or it may be allowed to accumulate as a sinking fund. As pointed out, this factor is illegitimately used in an appraisal when derived from the Inwood Table, because it is built up through a compound interest return predicated upon the same interest rate as that employed as the risk rate.

The Annuitist's Formula

It will be seen from the above that the "annuitist" uses the formula $\frac{1}{PW} = (R + AF)$, the "AF" being an "amortization factor which will charge off the investment in the improvement over its economic life." The annuitist's formula is therefore $\frac{1}{PW} = (R + AF)$.

PW, as shown, is the present worth of 1 per annum (a factor found in the Inwood "6 and 6" Table) for three years (2.673). The result of dividing this factor into 1 (in an actual example, into the net income, whatever it is) gives us, as noted, .3741, which is, as also noted above, the sum of .06 (R) plus the factor .3141 (SF). Consulting the Sinking Fund Table, we find that this .3141 is the Sinking Fund factor in the 6% column for three years. In other words, it is an amount which if placed at *6% compound interest* for three years would accumulate to 1.

Similarly, if for "P.W." we take an Inwood Present Worth per annum factor at 9% for three years, and divide this factor into 1, we would get .3950+; that is, .3950 would be equal to (R + AF); deducting R (.09) we have left .3050+, which is the sinking fund factor in the 9% column for three years.

$\frac{1}{PW} = (R + AF)$ is the same as

$$PW = \frac{1}{(R + AF)}$$

We will therefore see that the method of obtaining the amortization factors employed by the annuitist, and by the other group whom the annuitists refer to as "sinking fund" advocates, is identical, the difference being that the latter employs an obtainable safe rate, while the annuitist depends on a "risk rate" to secure his annuity.

Formulas Are Identical

In the formula which I employ in my "Simplified Appraisal System," Chapter V, Paragraph 45, I show that

$$\text{Value (V)} = \frac{\text{Income (I) less amortization factor (SF} \times \text{V)}}{\text{Rate reflecting risk (R)}}$$

$$\text{or } V = \frac{I - (SF \times V)}{R}$$

As shown (Par. 45, Chapter V) this reduces down to $V = \frac{I}{(R + SF)}$

We have seen above that

$$P.W. = \frac{I}{(R + AF)}$$

Present worth (P.W.) is the value (V.) sought. The two formulas are therefore identical. I use the terms "SF" instead of "AF," the letters "SF" standing for "Safe Rate Factor." (Sometimes also referred to as a Sinking Fund Factor.)

The annuitist employing the same formula should substitute for "AF" the letters "RF," which would stand for "Risk Rate Factor," because that is precisely what it is.

The use of the simple formula $V = \frac{1}{(R + SF)}$ requires at the most only one table. The use of an amortization or sinking fund table makes the operation very simple. Even such a table, however, is not necessary if ordinary bank compound interest tables are available, in which case the Sinking Fund may be found by employing the formula

SF Formula (A)

$$\left\{\frac{1}{\frac{(1+r)^n - 1}{R\,(1+R)^n - (R=r)}}\right\} - R = SF$$

In formula (A) above the "R" stands for the selected risk rate and the "r" for the selected safe rate.

The annuitist would use this formula:

SF Formula (B)

$$\left\{\frac{1}{\frac{(1+R)^n - 1}{R(1+R)^n}}\right\} - R = SF$$

In formula (B) there is no safe rate.

In fact, even the compound interest tables are unnecessary if logarithm tables are available. The use of either the compound interest tables or the loga-

rithm tables in the above formula is obvious.

While 1 (income) may be the same in each instance, and also "R" (Risk Rate), the amortization factor of the annuitist would obviously be considerably smaller than the safe factor of the "anti-annuitist." The result will be that V (value) will be larger when calculated by the annuitist. In other words, an overappraisement will result.

To Illustrate

Professor Burroughs, in his article in the July issue, claims that $17,720 capitalized for 30 years at 10% is $167,045. He uses, as the present value of 1 per annum for 30 years at 10%, the factor 9.4267, which is the Inwood "10 and 10" factor. If he had used a factor such as that derived from a Hoskold "10 and 4" Table, he would have arrived at a valuation of $150,302, as set forth in my article in the January, 1933, issue of the "Journal." Furthermore, in attempting to prove his point, he gets his figures crossed by multiplying the 9.4269 (the "10 and 10" factor) by a 30 year 4% sinking fund factor, thus obtaining a meaningless hybrid. Professor Burroughs suggests as a proper procedure in the case under consideration that the value of the land be arrived at by comparison and then "value the worth of the declining annuity attributed to the building" according to the method set forth in Frederick M. Babcock's *"Valuation of Real Estate,* Chapter 23. I will agree to this, provided Babcock and other annuitists employ an amortization factor which would have for its base an obtainable safe rate, instead of the same risk rate as that used in computing the expected warranted return from the improvement. Otherwise it is immaterial how they use the amortization amounts. They cannot escape the fact that reinvestment is assumed, whether this amortization amount is used to scale down the investment in the improvement or as a sinking fund.

I have invited criticism and discussion from many able appraisers who have been more or less devotees of the so-called annuity method. I have received a very hearty response and many are the examples submitted which allegedly proved their viewpoint.

The following from a prominent Chicago annuitist is typical:

I am going to try to explain briefly how we feel about the sinking fund question.

Let's take a simple case. For example, a man purchases a lot for $5,000 and builds a building upon it which costs $10,000. Assuming that this building represents the highest and best use to which that land may be put, we feel that the entire property, land and building, owes this man the amount of his capital investment in the improvement comprising a part of the entire property. We feel this way because the building has a terminable life and we do not feel, since the land is permanent, the same about it.

If we are correct in our assumption that the entire property owes the man $10,000, then that man is entitled to a fair return upon his capital investment, and is also entitled to have such investment returned to him. In the so-called "level annual sum" method, the amount of money which he may reasonably expect to extract from the entire property works in exactly the same manner as the ordinary installment contract for the purchase of real estate. In these contracts, at least in Chicago, payments are generally set out as follows:

"$———— per month including interest upon the remaining unpaid balance at the rate of ——% per annum."

Therefore, if we decide that the building has a normal economic life of ten years, for example, and that the man is entitled, because of the risk involved, to an 8% per annum return upon his capital investment, or upon so much of his capital investment as remains from time to time in the property, and also to have that investment returned to him, then, by the use of the table entitled "Annuity Whose Present Value at Compound Interest is 1," we find the factor .1490 (8% — 10 years.) This factor would require that the level annual sum of $1,490 be extracted from the earnings of the entire prop-

erty with which to return $10,000 in ten years and pay an 8% per annum return on the remaining annual balances. With a few dollars variance because of the fact that the entire factor would not ordinarily be used, this is the way such a level annual sum would operate:

We feel that placing the entire property in a position where its owner may consider it as being obligated to him for his capital investment in the improvements, and for a reasonable rate of interest upon such part of that capital investment which still remains in the property, is logical, and eliminates the necessity of reinvesting a part of the earnings of a property in some other form of investment in order to recapture the capital investment in the improvement upon such a property.

We have the same thought as set out above regarding properties in which the improvements are found to be in mid-life, providing, of course, and always, that such improvements are the highest and best use. In such cases we estimate the capital investment which would be required to build the improvements new at the date of appraisal, apply the level annual sum method, and then, after estimating the remaining life of the improvements, find their value by computing the present worth of the level annual sum for such estimated remaining life, discounted at the same rate per cent which was used in finding the original level annual sum.

Set-Up No. 1

1 Level Annual Sum	2 To Interest at 8%	3 To Principal	4 Principal Remaining
$ 1,490	$ 800.00	690.00	$10,000.00
1,490	744.80	745.20	9,310.00
1,490	685.18	804.82	8,564.80
1.490	620.86	869.14	7,760.78
1.490	551.33	938.67	6,891.64
1,490	476.25	1,013.76	5,952.97
1,490	395.14	1,094.86	4,939.21
1,490	307.55	1,182.45	3,844.35
1,490	212.95	1,277.05	2,661.90
1,490	111.79	1,378.21	1,384.85
$14,900	$4,905.44	$9,994.16	

The following will be noted in this example:

1. That the appraiser assumes that the income from an owner-operated property is something definite and certain in amount, as in a land contract or in a bond.
2. That the improvement will continue to yield a "level annual amount," although the building value gradually dwindles to nothing during the ten years, according to the annuitist's theory.
3. That he can accumulate his amortization amounts at 8% compound interest. (So far the annuitist has not been willing to admit this, although it is obvious when the amortization factor is segregated and analyzed as shown).
4. He assumes "that the entire property owes the man $10,000, and that the man is entitled to a fair return upon his capital investment and is also entitled to have such investment returned to him." Proceeding on this assumption, the appraiser arbitrarily sets up as the actual income "what the man is entitled to," regardless of what the property may actually earn. Suppose the actual income were only $600, or any other amount less than $1,490. Then what?

He could escape a great deal of his trouble by simply making the building value residual after having valued the land by comparison.

What is actually done in the above set-up is shown in Set-up No. 2 on page 236.

Set-up No. 2 shows in detail some of the operations which are hidden when the appraiser proceeds by formula, the exact function of which is evidently not wholly understood.

The various columns are made up as follows:

"5"—The same as the appraiser's Column 1. "the level annual sum" ($1,490) obtained by dividing the factor 6.7100 into 1 (which gives us .1490) and multiplying

Set-Up No. 2

Years	"5"	"6"	"7"	"8"	"9"		"10"		"11"	"12"
1	$1,490.30	$55.22	× ..... =	55.22	799.68	+ $	690.64	= $1,490.30		10,000.
					− 55.22					− 690.64
2	1,490.30	55.22	× 1.0800 =	59.64	744.46	+	745.84	= 1,490.30		9,309.36
					− 59.64					− 745.84
3	1,490.30	$55.22	× 1.1664 =	64.53	684.82	+ $	805.48	= $ 1,490.30		8,563.52
					− 64.53					− 805.48
4	1,490.30	55.22	× 1.2597 =	69.53	620.29	+	870.01	= 1,490.30		7,758.04
					− 69.53					− 870.01
5	1,490.30	55.22	× 1.3604 =	75.12	550.76	+	939.54	= 1,490.30		6,888.03
					− 75.12					− 939.54
6	1,490.30	55.22	× 1.4693 =	81.07	475.64	+	1,014.66	= 1,490.30		5,948.49
					− 81.07					−1,014.66
7	1,490.30	55.22	× 1.5869 =	87.41	394.57	+	1,095.73	= 1,490.30		4,933.83
					− 87.41					−1,095.73
8	1,490.30	55.22	× 1.7138 =	94.62	307.16	+	1,183.14	= 1,490.30		3,838.10
					− 94.61					−1,183.14
9	1,490.30	55.22	× 1.8509 =	102.22	212.54	+	1,277.76	= 1,490.30		2,654.96
					−102.22					−1,277.76
10	1,490.30	55.22	× 1.9990 =	110.32	110.32	+	1,379.98	= 1,490.30		1,377.20
							$10,002.78			1,379.98
							(+ 2.78)			(−2.78)

$10,000 (cost of the building) by this factor. The 6.7100 is the present worth factor of 1 per annum at compound interest (Inwood Table). In other words, .1490 is our R + SF. (.08 + .06903).

"6"—$55.22 is obtained by multiplying $800 (the assumed income from the building at 8%) by the sinking Fund Factor at 8% for 10 years (.06903).

"7"—Future worth of single payment from 1 to 9 years respectively at 8%. This gives us Column "8", which is self-explanatory. (Symbol of factor $[1 + R]^n$).

"9"—Shows how the 8% interest on the receding principal is obtained. (The R in the R + SF).

"10"—The SF in the Expression (R + SF), or the successive annual deduction from the principal, *which is shown to be nothing but the old-fashioned sinking fund amount*, obtained, however, by an 8% compound interest accumulation, through the use of the Inwood Table.

"11"—The sum of "9" and "10," same as Column 5.

"12"—Shows principal remaining each year after deducting successively the items in Column 10.

Reinvestment of Annuity

It will thus be seen that the annuitist is deluding himself when he thinks that the items in Column 10 can be obtained without re-investment. Not only are they the result of re-investment, but they are predicated on obtaining an 8% compound interest return on such re-investment.

Please compare column 1 with columns 5 and 11; column 2 with column 9; column 3 with column 10; and column 4 with column 12.

If the appraiser felt sure that an income of $1,490 would accrue from the improvement over the ten years of its economic life, why bother with all this rigamarole? All that would be necessary would be to employ the formula $PW \text{ (or } V) = \frac{1}{(R + SF)}$, which is the formula which the annuitists professedly use, 1 representing the income; PW, the Present Worth of 1 per annum in the Inwood "8 and 8" Table; and SF, the amortization factor predicated on a

compound interest rate of 8%. The formula would then read:

$$\text{PW (Value of Property)} = \frac{1490}{.08 + .0690} =$$

$10,000 (the .0690 being the SF in the 8% Column of the Sinking Fund Table for ten years). The sinking fund "addict" would say that the Present Worth, (Value) would equal

$$\frac{1490}{(.08 + .0872)} =$$

$8,911.48 (the .0872 being the SF found in the 3% Column of the Sinking Fund Table.)

Grimes' and Craigue's "Principles of Valuation" is sometimes referred to by the annuitists in support of their method. I would strongly urge the reader to study this excellent work on Sinking Fund and other Annuity processes. However, I fail to see how the annuitist can get much comfort out of this text, as it definitely calls attention to the limitations of tables similar to the Inwood Present Worth Tables.

An Invitation

I would like to invite our annuitist friends to apply their method to the property which John P. Hooker describes in his article in the July, 1933, number of the "Journal" under the caption "Financial History of a Chicago Property."

I fear the "premise" which would have to be resorted to in this case would have a rather labyrinthine appearance, and we will recall that Mr. Hooker's property is located in the heart of a big city, where income from properties is presumably stable. If an attempt is made to minimize the errors in the hazardous performance involved in more or less definite prediction of future income from a property, through the employment of "premises," we will be forced to concoct a different premise for every occasion, because we have pretty well agreed that there are no two properties exactly alike. Great flexibility is therefore necessary, and any attempt at too great exactness is misleading and therefore unethical.

Personally, I go a step further. For instance, in the appraisal of vacant property in twilight zones where the use possibilities are rather nebulous, I make no attempt to put a definite dollar valuation on the property, admitting frankly that I do not know exactly what the value is; but I do point out the various possibilities and what might reasonably be expected from the property, from an earning standpoint as well as from a sale under various conditions.

There are few people today who will pretend to predict accurately what the commodity index will be over the next ten years, or even during the next three months. Then why have we any right to think we can predict with any reasonable accuracy the income from a property over 20, 30, or 40 years (excepting, of course, a lessor's interest in a well-secured lease)? Commodity indexes tie in pretty closely with a good many things, including the probable future income from real estate.

♣ ♣ ♣

A Yardstick of Value

By MILTON W. MOORE

THERE is of course no substitute for seasoned and intelligent judgment in the determination of market value of real estate. However, the entire field of appraisal work is so interwoven with theory that any method certain in its conclusion and influenced by factors based on known value should serve to stabilize opinion as to fair value and discourage ruinous liquidation of property during periods of depression.

There are times when the market value of real estate may be quite accurately determined. A substantial accord of majority opinion with reference to fairness of price, coupled with desire and ability to buy, creates activity in the real estate market. Sales and influences affecting the utility of the property may then be analyzed to determine a market value, which would be fair as between a willing buyer and a willing seller under the existing economic conditions.

Difficulties, however, are encountered when an attempt is made to define value during periods of depression and stagnation in the real estate market. Most of the sales are to liquidate indebtedness. There is no accord of opinion as to fairness of price and therefore no market. And so a purely theoretical figure which, in the mind of an individual, is a price which would be considered fair and reasonable among a substantial number of people must then be taken as market value. Generally, differences of opinion as to such value are greater during periods of depressions, largely due to the mental characteristics of the appraiser. His conclusions create a figure which he is confident would be adopted by the public as their own were sufficient market influences brought into play to create a literal market value. These appraisals are materially influenced by such subjective attitudes as optimism and pessimism when they should be based upon the same influences that establish value when there is accord of opinion as to fair worth.

Necessity for the use of real estate is constant, therefore it should have a fairly constant demand somewhat comparable to that existing for commodities. Buying demand, however, practically ceases during periods of depression. Liquidation sales predominate chiefly because trustworthy indices of value are missing and stagnation rules the real estate market.

The Three Essentials to Prosperity

Commerce, credit, and confidence are three essentials to prosperity. The price level is of relative importance and of particular concern only in connection with liquidation of indebtedness. Commerce and credit emanate from confidence, but confidence cannot exist unless there is a substantial accord of opinion as to the value of that which so largely supports credit, viz: real estate.

An active real estate market is largely the result of crystallized public opinion as to value; and a fairly well-established market value results from such opinion. But when accord of opinion as to value is missing, there is no market and practically the only guide to value is individual opinion, but with such variations that general confidence in the worth of property is destroyed and demand therefor remains unsatisfied. Necessity then compels the sacrifice of equities at prices quite generally far below their worth even as measured in terms of other necessities of life. Capital is then timid

and will not venture into the realm of unknown value unless encouraged by ridiculously low prices. Investment practices of individuals are subject to psychological influences, i. e., if the figure representing value has the support of people generally, prospective purchasers are much more inclined to satisfy their demands for property than if they are required to rely exclusively upon their own judgment. In other words, particularly during depressions, a timidity exists with reference to real estate investments that is not found with any other class of property and which a reasonable consensus of opinion as to value should tend to remove. Values would then be more stable, liquidity of loans preserved, and a more constant demand follow. General confidence in the value of real estate would thus suffer less impairment; credit based thereon would be less subject to foreclosure and commerce and trade fostered to a substantial degree.

General demand creates a fairly constant market for most commodities. The prices therefor may or may not be equitable, but nevertheless they represent the public's appraisal at any given time of the worth of such property. Such public appraisal of the worth of benefits is manifestly of much greater value economically and commercially than if an estimate of their worth were left for determination to the independent judgment of one or a few individuals as is now done with real estate during periods of depression.

Assuming, therefore, that the market value of real estate may be fairly well determined when there is a substantial accord of opinion as to fairness of price, viz: in an active real estate market, would it not be of material assistance, as a guide to fair value during depressions, for property owners at least to know the worth in dollars of their holdings as measured by the price index of commodities? It is true that a figure thus obtained would be only reflected worth, but the thought prompting the suggestion is that the interpolation might serve as an aid to a more intelligent conclusion as to fairness of price, instead of placing so much reliance upon opinion only, as is now so generally done.

A Suggested Formula

An appraisal method, reflecting value in terms of wholesale prices of commodities, is mathematically demonstrated as follows:

Let

X = Present fair price or fair value of property in terms of current commodity prices.

A = Present wholesale commodity price index.

D = Accrued service depreciation of improvements in per cent.

B = Wholesale commodity price index at any given date.

I = Fair price of improvements at any date.

I_2 = Present fair price of improvements.

F = Factor of change in value of property.

L = Fair price of land at any given date.

L_2 = Present fair price of land.

"D", the accrued depreciation factor, includes obsolescence as well as structural depreciation. It is the useful service life of the improvements that has passed due to any cause.

"I", the fair price of the improvements, is also their fair reproduction cost less depreciation at the particular date. Since the fair reproduction cost of a proper improvement is the sum of the fair prices of the materials and labor in it, there is no difference between an improvement's fair price and its reproduction cost less depreciation.

"F" is a final differential to express any change in the relative value of the property occurring between dates of appraisal. If the ratio of the functional value of the property has remained constant, the factor will be 1. However, if the utility of the property has increased or decreased due either directly to immediate vicinity changes or indirectly to changes in other parts of the city, "F" should be respectively, more or less, than 1. "F" is a factor to compensate for directional growth, population, and other similar changes that effect the money value of property.

$$X = \frac{A\,(FL + [I - ID])}{B}$$

Illustration

A certain lot (in Los Angeles City) having a fair price of $3,000.00 in 1925 was improved at that time with a new building costing $6,220.00. The commodity price index was 104 in 1925 and 60 in 1933.

Assuming no change in "F", a 20% depreciation in the building, and substituting in the above formula, the 1933 fair value would be

$$X = \frac{.60(1\times 3{,}000.00 + [6{,}220.00 - 6{,}220.00\times .20])}{1.04}$$

$$X = \$4{,}600.00$$

Had the lot remained unimproved, its present fair value would be,

$$L_2 = \frac{AFL}{B}$$

$$= \frac{.60 \times 1 \times 3{,}000.00}{1.04}$$

$$= \$1{,}730.00$$

The present fair value of the building is the difference between the value of the total property and the land value or,

$$I_2 = \frac{A\,(I - ID)}{B}$$

$$= \frac{.60\,(6{,}220.00 - 6{,}220.00 \times .20)}{1.04}$$

$$= \$2{,}870.00$$

The same results are obtainable by using the index of the purchasing power of the dollar in terms of wholesale commodities. This index was 96 in 1925, and 166 in 1933. Therefore, value based on money's purchasing power is determined as follows:

Let

X = Present fair price of property in terms of present purchasing power of dollar.

M = Purchasing power of dollar index at any given date.

N = Present purchasing power of dollar index.

Then

$$X = \frac{M\,(FL + [I - ID])}{N}$$

$$= \frac{.96(1\times 3{,}000.00 + [6{,}220.00 - 6{,}220.00\times .20])}{1.66}$$

$$= \$4{,}600.00$$

The present value of the unimproved lot in terms of the purchasing power of the dollar is,

$$L_2 = \frac{MFL}{N}$$

$$= \frac{.96 \times 1 \times 3{,}000.00}{1.66}$$

$$= \$1{,}730.00$$

And the present value of the building is,

$$I_2 = \frac{M\,(I - ID)}{N}$$

$$= \frac{.96\,(6{,}220.00 - 6{,}220.00 \times .20)}{1.66}$$

$$= \$2{,}870.00$$

This particular property actually sold soon after completion for $12,000.00, the seller taking back two deeds of trust, the second of which was soon sold to another party. Recently the first trust deed was foreclosed for an unpaid balance of about $2,800.00 and the mortgagee is now offering the property for sale for $3,500.00 cash.

The original sale price of $12,000.00 was established during a period of boom prices and in addition to costs, profit, and financing charges included a speculative amount which the buyer was willing to pay for the chance of a profit at a still higher sale price. The present low price is entirely a liquidation price without regard for the actual value of the property. For, although, the present owner may be under no exigencies to sell the property, nevertheless, if he desires to dispose of it, he must enter it into competition with other real estate actually under foreclosure distress.

From the point of view that *the value of land is simply accumulated purchasing power for future use,* a method of measuring its justified fluctuations in terms of money is highly desirable. And it would seem that neither loss nor gain in purchasing power results to the owner of real estate from wide price fluctuations so long as land values rise and fall directly with commodity prices.

How to Assess Real Estate on Income

By PHILIP H. CORNICK

IN his trenchant article entitled, "Assessing Real Estate on Its Income," which appeared in *Public Management* for July, John A. Zangerle draws on his long experience and unquestioned wisdom as an assessor to sustain three conclusions as to the probable effects of basing property assessments on a direct analysis of income: first, that vacant lands would be exempted from all taxes, and that the burden on occupied properites would thereby be correspondingly increased; second, that, while certain obvious inequalities would disappear from our assessment rolls, other more grievous inequalities would be introduced; and third, that the difficulties of assessment, and therefore the costs, would be measurably increased.

Lest the reader of this article should have been misled by its title into believing that it embodies an attack on the validity of Mr. Zangerle's conclusions, I hasten to state that such is not the case. Not only do I believe those conclusions to be incontrovertible, but—before proceeding to the development of my own thesis—I hope further to buttress them by facts derived from experience elsewhere with property assessments based on income, as well as by expert opinion among commercial appraisers in this country.

In England, for about a century, the net annual money income of real estate, actual or imputed, has been the sole statutory basis for the valuation of property for local taxes and has been widely used as one of the permitted bases for several centuries longer. In that country, vacant lands are not subject to tax, the entire burden being borne by occupied properties. That adds weight to the first of Mr. Zangerle's conclusions listed above.

When separable portions of buildings are unoccupied, they and the proportionate parts of the land on which they stand are exempt from tax; when entire buildings are unoccupied, they and the lands on which they stand are exempt; even when buildings are occupied solely by caretakers, the exemption extends to the entire property. In view of the fact that the administrative rulings, and the court decisions on which these exemptions are based, would seem to flow logically and inevitably out of statutory provisions of any type designed to apportion tax burdens on the basis of income in money, English experience in this regard adds color, to say the least, to the second of Mr. Zangerle's conclusions which have been mentioned.

The detailed returns which English property owners are required to file on demand, the heavy and ever mounting penalties which are imposed for failure to file such returns, and the many provisions for arbitrary estimates which appear both in the statutes and in administrative procedure, indicate that the difficulties of accumulating the information necessary for assessment on an income basis are not inconsiderable. Furthermore, the fact that we should be under the necessity of educating our taxpayers *de novo*—a process which has not been carried to a wholly successful conclusion in England after more than a century of effort—tends strongly to sup-

---

Mr. Cornick was educated at the University of Tennessee, Columbia University, and the New School for Social Research. He has had a varied experience as an appraiser, editor, and since 1921, has been a staff member of the Institute of Public Administration, New York City. He has been engaged in numerous administrative surveys of city and state governments specializing in asessments and tax administration.—Editor, *Public Management.*

This interesting and instructive article is reprinted here by permission from the February, 1934, issue of *Public Management.*—Editor, *Journal of the American Institute of Real Estate Aprpaisers.*

port Mr. Zangerle's conclusion that the costs, at least during a prolonged transition period, would be high.

The present vociferous demand for adjusting tax levies on real estate to net money income comes from our friends of the emergent real estate profession. With a few notable exceptions, the members of that group heretofore have persistently ignored income from real estate in their own estimates—I shall not call them appraisals—of real estate values. Now that they have gotten themselves and all of the rest of us into a critcal situation by their flagrant disregard of basic economic principles, they have suddenly become converts to the income theory of appraisal. Like new converts everywhere, they make up in zeal for their lack of knowledge and experience. Before they have succeeded in applying, or have even learned to apply, the new theory in the appraisal of the one, two, or more separate properties in which they are directly interested, they insist that the assessor apply it not only to their own small number of properties but to all other properties in the community. Forgetting the rigid nature of the requirements for debt service on bonds issued in large part for public improvements which they themselves demanded, and the almost equally rigid costs of operating and maintaining those improvements; oblivious of the inescapable need for unemployment relief —a need which was generated in large part by the stagnation of trades and industries and by the failure of banks growing out of the collapse of the real estate boom; unmindful of the way in which tax rates for budgetary requirements are computed and operate, they now attribute to the new theory some power of alchemy which will alleviate the acute distress in which they find themselves.

Fortunately, however, the leaders of the new movement have thought their problems through more completely than the rank and file of their followers. The American Institute of Real Estate Appraisers of the National Association of Real Estate Boards is the first professional society of appraisers in this country which has adopted rigid entrance requirements for membership and a code of ethics. The president of that organization, Philip W. Kniskern, has recently published a thoughtful and searching book on the theory and practice of appraisals.[1] That he is a firm believer in the income theory of appraisals is sufficiently indicated by the second paragraph in his book:

> Value is that capital sum, expressed in terms of money, which a purchaser for investment would be *justified* in paying for a property, an estate or an interest, at a given date. It is the present worth of all the rights to future benefits arising from the property. This present worth must be computed upon a basis to be comparative and competitive with all other forms of investment then available to the investor.

In dealing with the valuation of property for taxation, in the course of a chapter which discusses other viewpoints of value, he nevertheless expresses himself as follows:

> The determination of the value of real estate for the purposes of assessment or taxation involves two elements which practically necessitate methods differing from any other valuation work. The time available for the assessment of such a vast number of properties requires wholesale appraising and seriously limits, if it does not prohibit, particular appraising. A large number of individuals and interests are vitally interested in the results and uniformity is absolutely essential to eliminate complaints. . . .
>
> It is generally the American practice in assessing, while sometimes recognizing an average income in a district, to disregard the income from the individual property except as it may be reflected, correctly or incorrectly, in the general level of current sales.[2]

This second quotation indicates that Mr. Kniskern is in substantial agreement with Mr. Zangerle as to the impracticability of applying the income

[1] *Real Estate Appraisal and Valuation.* By Philip W. Kniskern. Ronald Press, 1933.
[2] *Op. cit.*, pp. 100-101.

method of appraisal *directly* in the field of assessment for taxation. But fully as important, it would seem to point also to the way in which assessments can be based *indirectly* on income. If the general level of current sales can be made to reflect the incomes from individual properties correctly we shall have approximated that ideal. Obviously, the assessors themselves can do little or nothing to promote that happy state of affairs. But how about the commercial appraisers?

If the small but growing number of qualified and ethical members of the appraising profession will recognize and accept their responsibilities in the matter, they can lay the foundation for an equitable adjustment of valuations for taxes to expert estimates of real estate incomes realizable in the future. They can lay the first tier of foundation stones if they will convince the executives of the insurance companies, banks, and mortgage guarantee companies that size and grandeur in a building cannot increase the capacity of a site to produce net income beyond the point which is inherent in its location; that the erection of twenty towering structures in a community, for no better reason than that one is temporarily yielding a net income on its cost, leads not to an increase in net income but to a loss of capital. They can lay the next course in that foundation if they will teach the host of small investors that the value of a mortgage bond or of a participation certificate is not determined by the amount of gilt used in printing it, nor by the number of reassuring words in its text, but solely by the net income of the property over a term of years; and that there is no indissoluble link between that net income and the price paid for the land or the amounts expended in erecting the building. They can carry that foundation higher if they will divorce themselves wholly from the "go-getters" among the real estate men, and use their growing prestige to inculcate in the minds of the people the simple and indubitable fact that a piece of bare land is not necessarily worth $2,000 per lot or even per acre, merely because it happens to lie within fifty miles of the heart of a metropolitan center, or within a day's walk of a beach more or less suitable for bathing. They can cement their foundation by supporting legislation which will make every appraisal for mortgage, made by or for any fiduciary institution subject to public supervision and regulation, a public document open to inspection by other appraisers, by tax officials, by depositors in banks and investors in insurance policies, and by citizens generally. They can reenforce their cement by prescribing that any member of the appraising profession who files for record an incomplete or a misleading appraisal is guilty of a violation of the professional code of ethics punishable by summary expulsion from the society of appraisers.

When these things shall have been done, the competent assessor will be in position, by applying the methods he now uses, to establish his values for taxation in proportion to income. Since commercial appraisals will for the first time in the history of the country be based primarily on analyses of income; since a large number of the more important appraisals will, also for the first time, be divested of secrecy and mystery, and will become elements in the formulation of an enlightened public opinion on the subject of real estate values; it follows that sales prices will tend to conform to the levels established by appraisals, and that assessments for taxation based on sales prices and on appraisals will also be in proportion to incomes. . . . . .

Relation of Management to Value

By GEORGE H. GRAY, M.A.I.

THIS is a very broad subject and comes well within the theory of sound value. It is an important element to the appraiser and has a direct control upon net profit and worth of the investment property, particularly as to benefits from future rights and uses.

There have been many sound appraisals of property, rendered useless by incompetent management; and there is no method by which to estimate losses by obsolescence and depreciation, resulting from the failure caused by stupid and careless care and maintenance of most classes of improved property. Efficient management is all essential; bad management is certain to produce financial loss, and high pressure management is not desirable, because it creates elements and conditions which are bound eventually to produce losses, equally as destructive as those created by incompetent management.

An appraiser has the right to assume that improved property, which is the subject to an appraisement, will continue to receive the same efficient management and normal care that an inspection and investigation, of such elements pertaining to the property, would then determine. If, however, he finds from his examination that the property has not eceived the management to which it is entitled and not sufficient in his opinion to develop the best results, then that naturally becomes a subject which should be analyzed in his report and a statement of constructive criticism included therein. In this statement should be detailed the benefits that will accrue from better care and such recommendations that will, in his opinion, produce better results and protect the property from unnecessary obsolescence and depreciation.

In the process of formulating appraisals, either from a scientific or practical consideration, there is no way to estimate, as part of the final conclusion, the effect of improper management, for the reason that the appraiser cannot determine the degree, to which improper managment will affect the property in depreciation, nor how large or small the loss will eventually become. In large properties and in the better grade of properties, such losses would naturally be larger and to a greater extent, curtail and deplete the natural element of profit and net return.

It is well-illustrated, nevertheless, that a complete and thorough examination will develop many of the trends, from which loss or gain can be anticipated, as a result of the kind of management received by such properties.

The effect of the relation of management to value, from the appraiser's standpoint, depends to some extent upon the character of the buildings. It will be greater or lesser with such structures as single family houses, apartments, tenements, factories, garages, warehouses, business buildings, hotels, theatres, etc., and upon the normal expectancy of the life of such buildings, and upon the use and occupancy thereof. This, of course, can be readily understood when you consider the extent to which modern personal equipment is essential in its use and occupancy. The neighborhood and the location, its transportation facilities and the environment will have much to do toward producing satisfactory results. Store and business buildings in strong locations will be less apt to suffer, as a result of poor man-

agement. The newer class of buildings are, of course, more easily managed, but these also demand important considerations as the buildings become older. In the progress of time, new problems develop and changes of methods and often the lowering of the rental schedule becomes not only necessary, but desirable. The tendency of vacancies in a neighborhood, or in a particular building, is very often an element for another kind of management and the adoption of still other methods becomes necessary.

Better planning and an intensive study, from the management point of view, will alleviate many of the problems of waste and early exhaustion, which so materially affects the normal income profit and eventually the appraisal value.

A great deal of the distress today in real estate investment properties can be directly attributed to the failure through impractical architectural design, construction and the lack of proper understanding of the needs for efficient management.

The realtor with experience in management service, cannot produce satisfactory results from a property burdened with excessive exhaustion and lacking in rental value, caused by bad planning and unmarketable facilities or utilities. Properties in which years of existence have produced the havoc of obsolescence, cannot be expected to respond to the best of effort, no matter by whom applied.

Considerable progress and a more perfect product will be made and realty values stabilized, when there occurs a close co-operation between the architect and the realtor, upon the design and plan of investment properties, in future construction projects. Mortgage and Trust Companies and the individual investor will certainly demand such co-operation for the better protection of all future investments or there will be a dearth of funds to finance new construction for years to come.

The professional appraiser may always study his subject from the elements and conditions he finds, either by an analyzation of the management such property has had or the substitution of the kind of management that is best suited to the property, which to any degree, will affect its value. Poor management from long standing, may have a decided effect upon the value of that particular building; and it cannot be assumed that a change of management, for the better, will immediately restore the damage, or the loss that has accrued during any long period of time. It is apparent in many cases, that the older classes of buildings can never revert to the best uses and the greater income, by new management on an efficient basis, after many years of poor management. This is because management has such a direct bearing upon environment, as well as obsolescence and also when either is materially affected by deep-rooted conditions. It is indeed very doubtful whether the property can ever be reinstated to its fullest extent. It is a great error to assume good management, when such management does not exist and has not existed for some time in the past. High pressure management, one of long duration, will often become as unsatisfactory as poor management and just as destructive to value.

A few years ago, the so-called Owner Management was a topic of frequent discussion and received commendation from a variety of sources, but today it is a forgotten topic. In my opinion, it can be classed as nothing more or less than high pressure management. It can be successful on the basis of very high rentals, but only so when applied

during the first three or four years of a modern structure. It is a well-known theory that a new building will always produce a higher gross rental, which generally cannot be maintained as an average over a term of years. In certain brief periods of time an attractive showing can be made. When these conditions are well-considered, an analysis would readily determine the result to be temporary in character and not dependable for future expectancy, particularly for a sound net rental return upon an investment property.

Many of the methods in use today, for the purpose of overcoming unfavorable economic conditions, over-production and failure in design of architectural accomplishment, are causing the greatest difficulties and producing problems that only a few years ago were not so prolific. Some of these can be mentioned as:

Expensive type of service.
Concessions upon rentals.
Expensive decorations and excessive personal equipment.
Payment of a tenant's moving expenses.
Free gas and electric service.
Excessive elevator service.
Private bus service to far-away transit facilities.

It can be readily understood that the use of these expedients will improve the tenancy and cut the vacancies, but that the cost is naturally out of all proportion to any net gain, which should be reasonably expected. Then you have another element, which frequently is not well understood nor sufficiently considered, and that is latent defects in construction, inadequate heat or hot water supply systems, and lack of elevator facilities, which create a condition of excessive expense and abnormal carrying charges. Heavily mortgaged, or over-financed properties do not readily respond even to efficient management, for in such properties there is no cushion or equity to serve the same purpose as a reserve. When the time comes to meet unexpected loss or failure in income, be it only of a temporary nature, the reserve to meet the contingency is not available and unless additional capital can be immediately produced and expended, foreclosure occurs, then the sad effects of inexperienced Receivers complete the collapse of what was, only a brief time before, destined to be a sizable equity, at least in theory, but rarely so in practice. It is said that the appraisal process is not an exact science. This is an illustration of why it never can be.

There have been times, always very brief, and there probably will be again, when management will not seem to be an essential element, but it should always be considered, from the appraiser's viewpoint, a substantial, all-important element, and seriously regarded at all times as such.

It is essential to regard management, where the character of the improvement makes it a necessary function, as a major element. Like any other business from which net profits are assumed and anticipated, experience, ability, and mature judgment are absolutely necessary.

♣ ♣ ♣

Comment and Discussion

Commodity Dollars

RECENTLY much attention has been focused on the argument than an appraiser must consider the value of the American dollar in establishing a valuation of real property. Some think that land values change with the value of the medium of exchange. Others believe an appraiser has no right to speculate on the value of the medium which the Government sets up as a standard. The gold dollar, which has been withdrawn from circulation, is measured by its grams of a certain weight and fineness. The paper dollar is equal to it, for it passes as current as the other. The gold dollar and gold certificate are now held by the banks under authority of the Government as a deposit against the issue of the privately controlled paper dollar which the public is compelled to use.

The argument that land changes in value according to some banker's estimate of the value of the exchange media based upon commodities, presupposes to my mind that all values are based upon land production of crops—foodstuffs—which is not altogether true. The fact that the farmer chooses to raise more produce than he requires and because of a limited market during crop season allows his crop to spoil, due to lack of facilities for storage and preservation against the future day when there is a market, does not seem a sufficient base upon which to measure all values. Because the farmer raises more than he can prudently care for is not an argument for the rise and fall of other commodities.

In 1926, when land values were high, as indicated by sales and by the demand for it, the Government issued through the national banks and the Federal Reserve a $10.00 note guaranteeing $10.00 to the bearer, or 1,000 cents in silver or gold. That bill today passes current at the same amount and, while it may buy 20% or 30% more weight in corn or oats, that does not prove the medium to have risen to represent $12.00 or $13.00. It only proves over-production and maldistribution, which results in a reduction in the sale value of corn and oats—not an increased value to the medium. The ten dollar bill dated 1926 which the artisan received for his services had nothing to do with corn or oats, but was for labor in producing a piece of furniture from an oak tree which grew on his premises and to which his years of skill as an artisan entitled him. In his community artisans of skill are becoming fewer; his production is becoming less, and by that same reasoning his product demands an increasing price, but the customer gives him the same $10.00 bill another gave him in 1926. He does not need oats or corn, but needs that money to pay taxes, interest, insurance, water, light, gas, etc., bills, and these creditors will not give him a receipt for $12.00 or $13.00 for that old note. So where has it changed in value?

We are told that a certain firm has a system whereby it pays its help each week upon the basis of the trend of commodity prices yet it sells its product according to a fixed scale of prices. This, therefore, would seem to be a propaganda scheme to reduce expenses of production for bigger profits and does not do much more than disgruntle the employee.

The valuation of real estate we will

say is made for a bond issue as of January 1, 1933, and the bonds are sold in May, 1933, at $500,000 of 120 cent dollars. These bonds now being in the hands of the public we find May 1, 1935, that the dollar would only buy 100 cents worth of commodities and the issue at that date would only represent $400,000. The property has been well cared for and is in as good condition as it was two years before. Now who loses when the bonds are payable in $500,000 of current bank notes? Would not this shrinkage mean that the Trustee could foreclose on the property or demand a payment of $100,000 from the people who sold the issue, who in turn would have a claim on the appraiser for fooling them. Would it not make lending on real estate rather risky and make the obligations of the borrower a bit too heavy?

It would seem that the Government in establishing a medium for exchange is charged with seeing it standardized to a norm of value which would comprehend something else besides commodities.

The value of the dollar is linked with the ability of the country to pay its bills, the progress of its manufactures, the culture, the comfort of its people, the development of its waste places, its natural resources, its growth in the arts and commerce, and not altogether on the tiller of the soil who has not developed the art of distribution to equalize his ability to produce. In other words, the medium of exchange represents both the tangible and intangible things, and satisfaction of the people, which cannot be fully comprehended or embraced in the commodity dollar.

A. P. Allingham, M.A.I.

Buffalo, New York, January, 1934.

Changing Dollar Values

IN the past, most appraisals were made for the purpose of estimating the market price, i.e., sales price obtainable at the moment. The warranted or justified price, in view of enviroring factors, was seldom if ever considered. Indeed, few possessed adequate knowledge to estimate the warranted price of property.

Mortgage lending agencies, strange as it may seem, made loans on the basis of prices obtainable at the time of the commitment. No thought was accorded reasonably expected charges during the life of the loan. This is indeed a sad indictment of the business practices of large financial institutions which were, in fact, trusted custodians of the public's funds.

Prices change, sometimes violently. Witness prices of 1932 as contrasted with those prevailing in 1929. A good loan made in 1929 may have been "sour" indeed in 1932—during the life of the original three year commitment. To say that the value of the dollar should not be considered by the appraiser is tantamount to saying that "booms" and "depressions" have no effect upon the price of realty.

Should the appraiser take into consideration any reasonably expected changes in dollar values, e. g., prices of real estate? Emphatically, the answer is *yes*. This is particularly true if the estimate is for investment or loan purposes. In fact, about the only purpose for which market price should be estimated is in matters of Eminent Domain —Condemnation.

Before proceeding with this discussion, it may be well first to define our terms. Price measures the ability of commodities to command dollars; value, however, measures the ability of one commodity to command others. For illustration, the price of a bushel of wheat

may be 80 cents; its value may be two bushels of corn. It thus follows that the price of a dollar cannot change although its value may. A dollar is always 100 cents but, that which the dollar will purchase changes greatly, sometimes in a short space of time.

Then too, the market price of property fluctuates through wide limits whereas its warranted price fluctuates comparatively little. During periods of rising prices e. g., "booms," the price at which property will actually move, in the open market, is usually much higher than justified, in view of inherent and environing factors. Conversely, during falling prices, e. g., "depressions," property oftimes cannot be sold at half its fair value.

It is not unreasonable to say that one of the major reasons why so many mortgage loaning agencies are today in sore straits is because of the failure to differentiate between market price and warranted price—because of changes in the value of the dollar. Let us inquire as to why this is so.

Firstly, from changes in the price level there emerges a redistribution of wealth. During rising prices the debtor profits at the expense of the creditor. Equities, represented by ownership of real estate or common stocks, solely absorb the increase in price while the price of the mortgage changes not at all. The equity owner—debtor—gains in dollars and purchasing power at the expense of the mortgagee or bond holder —the creditor.

However, during falling prices the converse is true. Equities shrink, both in dollars and purchasing power while the creditor's postion, although unchanged as to the actual number of dollars, is improved in purchasing power. Thus, changing prices redistribute wealth without actually increasing it.

It may be that a laborer earns $3.00 per day and pays $6.00 for a pair of shoes; and later, due to rising prices, earns $6.00 per day and then pays $12.00 for the same pair of shoes. Notwithstanding the fact that prices have doubled the fact remains that, in either case, it requires two days of labor to earn the same pair of shoes. Thus, prices may change while the amount of goods, i. e., wealth, may change not at all.

Let us now view the problem at closer range. What effect have these conditions upon the price of property? Briefly, during rising prices, the interest rate necessary to attract capital to an investment in property will decrease. This is for the reason that, under such conditions, the risk of ownership lessens. It is axiomatic that the most influential factor affecting the capitalization rate is "risk"; as risk declines so falls the rate.

On the other hand, the interest rate necessary to attract an investor during falling prices, when equities are shrinking, may be a fabulously high one indeed—almost solely because of the risk environing the investment.

From this it logically follows that, changes in the value of the dollar, i. e., changes in prices of goods and property bring about concurrent changes in equities and hence in the risk inherent in an investment. Inasmuch as changes in risk will induce concurrent changes in the capitalization rate, and, as changes in the capitalization rate will directly effect the capitalized price of property, it follows that changes in the value of the dollar will induce concurrent changes in the price of property.

Viewing the matter in another light, an increase in price brings about an increase in dollar profit. This in turn stimulates subdivision—too often to excess; and construction activity — too often to the point where the butcher and

baker become speculative builders. A continuance of this condition lends to unreasonably high price levels—to the point where the market price of property is greatly in excess of that warranted.

This is the time to be cautious. A loan on the basis of 50% of the market price prevailing during such conditions may be much more hazardous than a loan of 90% of current prices during so-called normal times.

In conclusion, changing dollar values brings about changes in the price of property; changes in interest rates in general and in capitalization rates in particular; changes in employment; in the purchasing power of people; in real estate activity; and last but by no means least, changes in the Standard of Living.

Should changing dollar values be a matter of consideration by the appraiser? Obviously, the answer is *yes*, emphatically so. Indeed, it would be fatuous to assume otherwise.

The time is fast approaching when reasonably expected changes in the value of the dollar will be a matter of utmost importance in appraising for loan or investment purposes. Then, and not until then, will valuation procedure attain the professional rating it will truly deserve; and appraisers will be men requiring a higher order of intelligence.

George L. Schmitz,, M.A.I.
Los Angeles, California, January, 1934.

Depreciation and Obsolescence

IT would seem helpful if we could arrive at a commonly accepted definition of the terms "Depreciation" and "Obsolescence" so that in the discussion of these important items, there would be no confusion.

For sake of discussion, then, let us define "Depreciation" as that reduction of value caused by the physical or structural damage to the building brought about by time and the elements and which is only partially taken care of by current repairs, such as settling of foundations and decaying or rusting of important members in the structure.

"Obsolescence" may be defined as that loss due to economic changes, improved construction and arrangement of houses that add to comfort and utility, or decline in character of the neighborhood and changes in the general economic condition of the entire community and many other considerations that the experienced and skillful appraiser considers in each appraisal problem.

It seems simpler and more logical to the writer to express "Depreciation" and "Obsolescence" as defined above by a certain percentage, which after careful consideration of all factors seems, in the judgment of the appraiser, sufficient to take care of these items. It has been suggested that deductions made for poor architecture, interior plan, location, wear and tear, etc., be expressed in dollars; but this method seems to the writer a very difficult thing to do, whereas the percentage method allows the appraiser to compare the value of one property to a similar property that has better location, better floor plan, better architecture, etc.

In the consideration of both Depreciation and Obsolescence, it is interesting and sometimes very helpful, not only to view the structure considering the years that it has passed through, but also to attempt to look into the reasonably near future and decide how many more years of useful or economic life is left to the building. This, of course, involves a careful and intelligent study of the constantly changing character of buildings with increasing number of modern improvements, some of which are already at hand and others, such as air conditioning, the use of light steel construction, increasing use of insulat-

ing material, and the general improvement in construction to meet the special climatic conditions to which the building will be exposed.

The general trend of residential building will, of course, have to receive careful and accurate study. For example: an analysis of residential building in a town near Miami revealed that out of two hundred houses constructed since 1926, only one house had been built in a certain section of this town during this period—a most convincing evidence that this section was not popular and that other sections of the town were being used for new houses.

Out of many years of experience in different parts of the country, it seems to the writer only sensible and logical that Depreciation and Obsolescence be carefully studied as of the date of appraisal and that it is in many cases unfair and inaccurate to use a given fixed rate per year for either of these items.

For example: after the first five years of life of the ordinary residence, Obsolescence is often so rapid that physical Depreciation plays a comparatively small part. This, of course, being due to improved construction, shifting of neighborhoods, etc. It would be very foolish to assume that improved construction, shifting of neighborhoods, and other important considerations occurred at a regular rate per year throughout the economic life of the building, when we know as a matter of experience, that unusually well built houses of good design with modern equipment are sometimes just as attractive and have practically the same economic value after five or ten years of life as thay did when they were first built.

On the other hand, houses of inferior construction, poor arrangement and equipment, would suffer a heavy loss from Obsolescence within a few years.

It is on account of these practical and common sense considerations that it is often fair and wise to consider approximately how many years of useful life the house may still have by comparing it with new houses of good design and construction and equipped with modern devices for comfort and safety.

In other words, the construction, plan and equipment of some houses are so poor that they should be charged with many years of Obsolescence when they are first built, whereas, on the other hand, many houses are so skillfully designed, so well arranged and so fully equipped that they remain modern and up-to-date and attractive for several years to come.

It goes without saying that a carefully chosen location is a most important factor in determining the percentage of Obsolescence for any particular residence.

The writer recently leased a house, which although five years old was just as convenient and well equipped as the houses being built today. It was leased in competition with a house much larger and with more expensive equipment of certain kinds. The prospect made this remark: "I want this house because of its beautiful location and its unusually good design and *because it has charm.*" This is an actual example illustrating a part of the above discussion. There are other excellent and sound considerations set forth in Mr. Hyder's article* which need only to be mentioned to show the good common sense with which he approaches the subject under discussion, such as restrictions permitting only good residences to be constructed in a neighborhood, convenience to stores, schools, churches, local transportation, and, of course, good street improvements and public utilities.

*See page 51, Vol. II, No. 1, *The Journal of the American Institute of Real Estate Appraisers.*

After all, it would seem that each property offers its own peculiar problem and after we appraise the house and apply what we believe to be the proper percentage for Depreciation and Obsolescence and after considering market conditions, rentals, etc., we still have many other things that must be given their due and proper consideration and must be studied with a mind open to certain influences which at some time may be translated into actual dollars. The growth or lack of growth of the community in general, the various considerations of taxes, insurance and other similar things must, of course, be given their proper place in the picture.

In addition to over ten years of appraisal work, the writer has had ten years of actual engineering experience, so that he can hardly be fairly accused, after this rigid training, of giving undue attention to things other than those which can be proven.

However, in spite of all of this, let us not forget that there are certain things over and beyond our ordinary calculations that are of value and must be considered.

"If it has charm,"—then add something to your appraisal for this indefinable but valuable quality.

Hollis Bush, M. A. I.
Miami, Florida.
December, 1933.

A Problem in Appraising

RECENTLY the writer was asked to appraise a property for an estate in the Chicago district, which presented a real problem in appraising.

The problem consisted of a two story brick building 40 ft. in width, 44 ft. deep, and an average height of 32 ft. The lot on which the building was erected is located in a residential section and has a frontage of 66 ft. and a depth of 132 ft.

The property is under lease to a public utility corporation for a period of 15 years. The rent is $300 per month. Taxes and other expenses paid by the owner average $400 per year. The lease was signed five years ago and expires in 1943. All rents have been paid promptly when due, up to the present time. The building was erected to meet the requirements of the tenant. It is a special purpose building. The ceiling height on the 1st floor is 13 ft. 4 in.; 2nd floor, 11 ft.

The present value of vacant lots in this block, for residential purposes, is $40 per front ft. The building has, in the opinion of the writer, no value for business purposes. The depreciated replacement cost of the structure is $14,841 and the value of the land, $2,640; a summation value of $17,481.

The present rentals are out of proportion to the land value and replacement cost of the improvements. On a straight 7% capitalization, an income of $3,200 per year is the return on an investment of $45,714. The property is under lease to a reliable tenant who will, in my opinion, continue to pay the rents until the lease expires. What will happen when the lease expires in 1943, if the company seeks a lower rental, builds to its own requirements, or moves to another location in the village, is a matter of speculation and conjecture, and not of appraising. The owner is at the mercy of the tenant and will, if the lease is not renewed, be compelled to remodel the building at a cost of $6,000. The salvage value of the structure, if remodeled for dwelling purposes, is $4,000.

The value of this property was established as being the sum a well-informed buyer would pay for a net income of $3,200 per year, plus the salvage value

of the structure and the present value of the land. A straight 7% capitalization rate has been used because the courts do not favor the compound interest method.

Present value of income (10 years)	$18,825
Land value	2,640
Salvage value of building	4,000
Total present value of property	$25,465

Eliminating all matters of speculative nature, such as the re-leasing of the property to the present tenant or to other tenants, without remodeling the building when the lease expires in 1943, the buyer is in the financial condition in relation to this property ten years hence shown in the accompanying table at the bottom of this page.

Comments and constructive criticism by the members of the Institute will be appreciated.

Oscar Soderquist, M. A. I.
Waukegan, Illinois.
Jan. 15, 1934.

Can Present Market Value Be Determined?

IT is generally agreed that one of the most difficult problems confronting the appraiser for the past few years has been the determination and qualifying of *present market value.*

Aside from the task itself have been the cross-currents of criticism encountered by the appraiser from some of the men in the real estate business. Those who have criticised the making of appraisals and denied the soundness thereof are mostly those men who either have refused to change their perspective or, bewildered at the turn events have taken, prefer to adhere steadfastly to the old order of things. It is the only order of which they are sure.

It is not surprising, therefore, to hear occasionally such remarks as "I do not know what it is worth," or "There is no such thing as present market value." The competent appraiser will not make such statements, regardless of conditions or markets. The first statement can be only construed to mean that the person making it admits that his outlook has been shattered and that he is incapable of defining values. The second statement of course bears close relation to the first in that it is a denial of an existing market. Regardless of such an opinion, there is a market; and we shall continue to have one as long as real estate is bought and sold.

Appraising real estate during the last few years—and at present—is probably more difficult than at any time in the past. Nevertheless the competent appraiser *can* determine worth—or cer-

Purchase price of property		$25,465
The same amount invested in first class securities would average a return of 5%, or a total of $12,732 over a period of ten years.		
He has received a total in rents (net) of	$32,000	
Surplus		
Surplus deducted from original investment	$19,968	
		19,968
Balance still invested in the property		$ 6,197
The purchaser has now all but $6,197 of his original investment returned and is the owner of a building on which he must spend $6,000 in order to rent it. The building, after being remodeled, and the land, have a summation value of $12,640 and will, basing the rentals on the average rent paid in this locality during the last 6 years, give the owner a net return of 8% on an investment of $12,500.		
Balance of investment in property after ten years	$ 6,197	
Remodeling expense	6,000	
	$12,197	$12,197

tainly an approximation of it. He realizes that the economic maelstrom that has engulfed the world has left few traces of former values. He admits that real estate did not withstand the onslaught that has brought change to every known value, even to the recent devaluation of the American dollar. He realizes further that any attempt to justify or transpose values from the prosperous era to present day markets is a futile endeavor.

Property values must be dealt with fairly at all times, and bias or favoritism eliminated from appraisal procedure. It is only natural that real estate men favor real estate as the ideal investment. While full credit should be given for its substantial character, we must be fair and admit that it is not invulnerable or immune from all unfavorable influences.

The man continuing to appraise property today has brought into play a keen appreciation of present conditions and their effect on future values. The proper equilibrium between abnormal and subnormal prices or values must be determined. The phenomena created in some instances by the merging of *price* and *value* must also be analyzed.

A Logical Procedure

A logical procedure towards the determination of *present market value* includes the proper balancing and application of the following: *reproduction cost* minus all the usual factors, depreciation, obsolescence, etc.; *present land value; trends, capitalized income value; effect on saleability as to financing* (as regards difficult or easy purchase terms); *known condition of market* (comparable properties at fair prices competitively offered); and, last, the irrefutable law of *supply and demand.*

When markets were active, financing facilities unlimited, and values climbing, appraisals of market worth were construed to mean *what it will sell for.* When such appraisals were made by active brokers or appraisers, the results were remarkably uniform. Now, because of conditions, *market value* and what it means has almost been lost in the parade of foreclosures, liquidations, tax and distressed sales. The result is widely varying opinions of value on a given property.

More uniformity would be found in appraisals if the approach were made along more orderly lines. The appraiser should ask for and receive *all* the facts surrounding the property to be appraised. Oftentimes the appraiser is criticized when the fault is not his. Many times appraisals are requested to determine *distressed* or *forced sale* prices, but the appraiser has not been so informed. He brings in a *value* based on *usual* conditions of sale. The report is criticized, because what was wanted was *distress price* and not *usual value.*

Even with the most conscientious and intelligent procedure the appraiser is sometimes put to the test in presenting accurately *present market value.* Under normal conditions (if we have ever had them) the "willing buyer-willing seller" made market value. The sale price was the value, and nobody doubted it. But today most sales are considered "less than the market," and champions of the old order maintain that such sales never represent *true value.* If a property was sold in 1930 for $65,000.00, the previous sale price having been $90,000.00 and the income gradually reduced until today the return is far below what it should be on the $65,000.00 basis, at what price will the champions of the old order fix the value? Chaotic conditions have brought about in some instances a merger of *price* and *value.* Therein lies the further difficulty of fixing market value accurately.

As an illustration of the merging of price and value the above mentioned property may be used as an example. The owner who paid $65,000.00 for a $90,000.00 property was convinced that he had bought a bargain, and expected a profit within a reasonable time. Despite many efforts to sell, market conditions have been against him. In the meantime he has reduced the tenant's rental to save him, or after holding several years, with vacancy periods or intermittent rental receipts, a substantial tenant may have appealed to the owner, and a term lease entered into at a rental *below* a fair return on $65,000.00. To sell this property today to the average investor the owner will be fortunate if he receives what he paid. Conditions and circumstances vary with different properties, but this example shows so far as market price is concerned, how after a certain period value, (its common interpretation) may decline to the price level.

A property sold in a neighborhood at a "bargain price" is at first regarded as unimportant so far as affecting the value of surrounding real estate is concerned. Sometimes it is unimportant, especially in prosperous times. But during the last four years the effect might be likened to dropping a pebble in water—the ripples spread out and the effect is noticed far away. Sales prices are too often accepted as criterions of value, and sometimes prove to be a formidable barrier in the path of selling at true worth. The appraiser must properly balance *price* and *value*, and once done, *present market value* is established.

A Further Insight

A further insight of *price* and *value* may be gained by an examination of the structure that supported the markets of the halcyon twenties. During that decade many lots were purchased and homes built, *completely* financed by first mortgage loans. A convincing sales point of the time was that first mortgages were made only on the basis of 50% of *value*. Consequently, the builder promptly marked the *price* at double the cost.

The spread between cost and selling price (usually near the price asked) with exception of a small cash payment was represented by paper financing. Times were good; sales abundant; and the butcher, baker and candlestick maker left their trades to enter this new field of golden profits, where capital was furnished. Soon the field was crowded with novice contractors; the quantity increased, the quality decreased, but homes continued to sell. No matter how good or bad the construction was, a buyer was always handy. Even seasoned real estate operators concluded that the *price* at which the property was sold constituted *value*. But did it? Our better judgment told us that the span was too wide between cost and selling price. Added to this was the fact that some of the houses built were so poorly constructed that they were not *worth* the mortgage at the time. In the light of later events inflated equities soon vanished.

In a going market poorly built homes, so long as they were attractive, cast a shadow on the value of well built properties. Every broker can remember the difficulty met with in trying to sell quality for a higher price. The better homes still retain a large part of their value, while the inferior ones are in the majority in foreclosure sales.

By simple reasoning it is therefore not difficult to establish market values of such properties if the facts are properly analyzed. Any manufacturer is entitled to a reasonable profit for a good product. So is the builder. But he should first have an *investment*, produce

a *good product,* and receive a *legitimate* profit.

Still another requisite the appraiser must have is the courage to speak his convictions. Present market value contemplates all of the factors heretofore mentioned and more besides. After the report is completed, the appraiser is qualified by intelligent application and procedure to speak with authority. Frequently the values reported are at wide variance with the values "wanted." Those still thinking in terms of the old order will attack and make every effort to justify their opinions. But the qualified appraiser may rest assured that his value will eventually be accepted.

As a further means of establishing our appraisals beyond any misunderstanding as to *price* and *value,* the following is suggested: If an appraisal is requested to determine present market value, we should be careful to ascertain if possible the exact status of the property. In the case of liquidations, foreclosures, court sales, or similar methods of sale, what is usually wanted is the *price* expected and not the *value.* Naturally, sales under duress never command prices in keeping with value. The two should be carefully segregated. In such an appraisal the *present market value* can be shown, then the *price* to be expected. In this way no doubt is left as to either. The terms of sale also have an important bearing on either the price or the value expected.

As a concluding comment on "There is no such thing as market value" it is interesting to note the Government's attitude on the subject. Values based on the new order of things are being established every day by the Home Owners Loan Corporation in the gigantic task of refinancing distressed home owners. Loans are being made on the basis of a three-way method of appraisal, which includes *present market value.* With the Government handling the bulk of home financing in the United States, and loans being made against values arrived at by a different process than heretofore used, can it not be reasonably stated that a new standard of value has been inaugurated?

Is this not further evidence of change? And a convincing argument that there is a "present market value?"

J. W. Denis, M. A. I.

Nashville, Tennessee.

Feb. 16, 1934.

Legal Responsibility of the Real Estate Appraiser

By ANDREW C. HAMILTON
Member Illinois Bar

THESE "days of reckoning" have made us all aware that a great part of the astounding losses which are being suffered by investors in real estate securities were made possible by padded valuations.

The problem of the legal responsibility of the appraiser is not entirely new. The laws of England and of the United States have long followed a rather well-defined standard as to the skill, honesty, and care which any person professing to be a member of a profession or skilled trade must possess and exercise.

Courts have stated this standard in many decisions of which the following are typical:

"The obligation which the law imposes upon persons performing . . . professional and specially skilled services is that they shall exercise a reasonable degree of care, skill and ability, which generally is taken and considered to be such a degree of care and skill as, under similar conditions and like surrounding circumstances, is ordinarily employed by their respective professions."

Porter v. Davey Tree Expert Co. (Ga.) 129 S. E. 557-558.

"The public profession of an art is a representation and undertaking to all the world that the professor possesses the requisite skill and ability. When a skilled laborer, artisan, or artist is employed, there is on his part an implied warranty that he is of skill reasonably competent to the task he undertakes."

Harmer v. Cornelius, 5 C. B. N. S. 236.

There are very few cases in this country actually involving appraisers, altho in England they have been fairly numerous.[1]

In a Texas case, City of Clifton, v. Woodlief Engineering Co., et al., 273 S. W. 619, the question was raised as a defense to a suit by an engineering company to recover compensation for an appraisal made by it of a public utility property. The court in its opinion affirmed the general rule applied to all professions and skilled trades as applicable to appraisers.

"Said engineering company knew appellant and appellee were relying upon the skill and the expert knowledge of its representative to furnish them an accurate report of the actual value of said property . . . Under the general principles of law, it was the duty of the engineering company to exercise ordinary care to make a correct report and to measure up to this standard of ordinary care, under the facts of this case, the highest degree of diligence was required."

Clifton v. Woodlief Engr. Co. *supra.*

It thus seems true beyond doubt that the undertaking, with or without a fee, to appraise the value of property, implies an assurance that the appraiser is reasonably trained and competent. Gross incompetence of an appraiser is one basis for legal liability which is recognized by all jurisdictions in this country.

Actual fraud in the appraisal, of course, subjects the appraiser to legal liability for resulting damages. But fraud is defined as an intentional misrepresentation of material existing facts which induces another to act to his damage in reliance thereon. It has been held that the giving of a partial truth when full information is requested, in reality becomes an untruth whenever it creates a mistaken impression and is designed to do so. The argument often raised is that an appraiser gives opinions, not representations of material facts. Many courts have held, however, that when the person giving his opinion is, or claims to be, an expert upon whose opinion another is likely to rely, and the expert does not truthfully state his ideas, fraud may exist. The expert, by misrepresenting his own

[1] See "The Liability of the Appraiser by J. George Head," in Volume 1, No. 2 of *The Journal of the American Institute of Real Estate Appraisers*, for January, 1933.—ED.

opinion or frame of mind, misstates a material fact.

It is perhaps a sufficient comment to call attention to the great practical difficulties of proving all of the necessary elements of fraud in any situation no matter how flagrant.

The decisions of our courts require of the person performing professional and specially skilled services not only reasonable skill and competence but also reasonable care in the performance of those services. The appraiser must not be negligent; he must exercise that degree of care and diligence which a reasonable and prudent man of his profession would exercise in a similar situation under similar circumstances. Otherwise he will be legally liable for the damages resulting from his negligence.

But life is uncertain; values go up and down, and what seemed a sound valuation today may be excessive a few months from now, or *vice versa.* Where is the line between errors of judgment, to which all humans are subject, and negligence, which imposes an enforcible liability upon the negligent expert. The following quotation from a leading United States case indicates the distinction:

"It would seem however, that if one, assuming a responsibility as an expert, possesses a knowledge of the facts and circumstances connected with the duty he is about to perform, and bringing to bear all his professed experience and skill, weighs those facts and circumstances, and decides upon a course of action which he faithfully attempts to carry out, then want of success, if due to such course of action, would be due to error of judgment and not to negligence."

The Tom Lysle, 48 Fed. 690, 693.

To whom then does the appraiser owe these responsibilities? By whom are these legal liabilities enforcible?

In a recent decision of the New York Supreme Court, written by Justice Cardozo shortly before his appointment to the United States Supreme Court, the law as to this point is summarized and commented upon. The case involved the question of whether a firm of public accountants was liable to a lender for losses sustained on a loan made to the borrower in reliance upon an audit which erroneously stated the borrower's financial condition, and which had been prepared for the borrower by the auditors. Negligence was shown in the preparation of the audit. The following is quoted from the decision:

"The defendants owed to their employer a duty imposed by law to make their certificate without fraud, and a duty growing out of contract to make it with the care and caution proper to their calling. Fraud includes the pretense of knowledge when knowledge there is none. To creditors and investors to whom the employer exhibited the certificate, the defendants owed a like duty to make it without fraud, since there was notice in the circumstances of its making that the employer did not intend to keep it to himself. * * * A different question develops when we ask whether they owed a duty to these to make it without negligence. If liability for negligence exists, a thoughtless slip or blunder, the failure to detect a theft or forgery beneath the cover of deceptive entries, may expose accountants to a liability in an indeterminate amount, for an indeterminate time to an indeterminate class. The hazards of a business conducted on these terms are so extreme as to enkindle doubt whether a flaw may not exist in the implication of a duty that exposes to these consequences. * * * The assault upon the citadel of privity is proceeding in these days apace. * * * In the field of the law of contract there has been a gradual widening of the doctrine of Lawrence v. Fox, 20 N. Y. 268, until today the beneficiary of a promise, clearly designated as such, is seldom left without a remedy. * * * Even in that field, however, the remedy is narrower where the beneficiaries of the promise are indeterminate or general. Something more must appear than an intention that the promise shall redound to the benefit of the public or to that of a class of indefinite extension. The promise must be such as to 'bespeak the assumption of a duty to make reparation directly to the individual members of the public if the benefit is lost.' *Moch Co. v. Renselaer Water Co.*, 247 N. Y. 160, 164. In the field of the law of torts a manufacturer who is negligent in the manufacture of a chattel in circumstances pointing to an unreasonable risk of serious bodily harm to those using it thereafter may

be liable for negligence though privity is lacking between manufacturer and user. * * * what is released or set in motion is a physical force. We are now asked to say that a like liability attaches to the circulation of a thought or a release of the explosive power resident in words. * * * The extension if made, will so expand the field of liability for negligent speech as to make it nearly, if not quite coterminous with that of liability for fraud. Again and again in decisions of this court, the bounds of this latter liability have been set up, with futility the fate of every endeavor to dislodge them * * * negligence alone is not a substitute for fraud."

Ultramares Corp. v. Touche, 255 N. Y. 170; 174 N. E. 441.

It is safe to predict that our courts will apply this same line of reasoning to a situation involving the liability of an appraiser to his client and to those third persons who might rely on the appraisal to their detriment. The liability to such third parties exists only when there is actual privity of contract so that they have become beneficiaries of the contract between appraiser and client, or when fraud can be proved in a situation such that there is notice that the client intends to use the appraisal to influence certain third parties. A representation, even though knowingly false, does not constitute ground for an action for fraud unless made with the intent to be communicated to the persons or class of persons who act upon it to their prejudice.

Now we have superimposed upon this body of Common law the Federal Securities Act. Briefly it provides that from and after July 26, 1933, no securities, unless specifically exempted can be issued in interstate or foreign commerce or through the mails, until they have been registered with the Federal Trade Commission. The registration statement demands a voluminous disclosure of essential information with regard to the securities.

The portion of the Act which most concerns appraisers is that section which specifically makes liable "in case any part of the registration statement contains an untrue or misleading statement of a material fact, or omits a material fact required to be stated" every accountant, engineer, or appraiser, or any person whose profession gives authority to a statement made by him, who has, with his consent, been named as having prepared or certified any part of the registration statement or as having prepared or certified any report or valuation which is used in connection with the registration statement. The liability is limited to the statement in such registration statement report or valuation which purports to have been prepared or certified by such expert.

The Act further provides that an expert can escape liability if he can sustain the burden of proof that he had, after reasonable investigation, reasonable ground to believe, and did believe, at the time such part of the registration statement became effective, that the statements therein were true and that there was no omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that such part of the registration statement did not fairly represent his statement as an expert or was not a fair copy of or extract from his report or valuation as an expert.

If the expert cannot bear this burden of proof in respect to his duty of reasonable care and competence the Act provides that he is liable to purchasers of the securities for damages not exceeding the offering price of the securities or that he must take them off the purchaser's hands at the price the purchaser paid for them but not at a price exceeding that at which they were originally offered to the public. Whether this extension of the common law liability will prove a benefit or an impossible burden depends entirely upon how it is administered.

Standards of Practice for Rural Appraisers*

IN order to establish and maintain proper Standards of Practice on the part of those engaged in making appraisals of rural property, the sub-committee on Appraisals of the National Joint Committee on Rural Credits submits the following:

Introduction

The profession of rural appraising calls for men of integrity, analytical ability, experience, and knowledge. Upon the opinion of the appraiser is based financial transactions of great importance, and his honesty of purpose must be above suspicion; in his professional capacity he must be entirely disinterested; he is charged with judicial responsibility, and must act with absolute impartiality; he has moral responsibilities to interested parties and to the investing public. These responsibilities cannot be properly discharged unless his motives, conduct, and ability are such as to command confidence and respect.

Basic to any individual succcess the appraiser may hope to attain, he must remember that first of all he is giving personal service and therefore no technical superiority can ever take the place of the highest standards of practice.

No code can be drawn which will completely define all of the responsibilities and procedures of an appraiser. However, certain principles which would govern the practice of members of the profession and serve as guides for circumstances other than those enumerated, can be agreed upon.

The report of the committee is divided into three parts dealing with (I) Ethics, (II) Definitions, and (III) Procedure.

I. ETHICS

Unbiased Activities. The appraiser in his professional capacity should have no undisclosed pecuniary or other interest in the property appraised, or in the outcome of his appraisal. An appraiser may conduct other types of agricultural activities, however, and may own or manage farms, but in his professional capacity he should be entirely unbiased by such other activities. It is of particular importance that he be uninfluenced by the effect his appraisal may have on any other business activity in which he is engaged.

Hasty Opinions. An appraiser should avoid giving hasty or ill-considered opinions of value.

Preliminary Reports. It is proper for an appraiser to make preliminary reports but they should be made only after all of the pertinent facts have been ascertained and weighed.

Conditional Reports. Conditional reports have a recognized place in appraisals but under no circumstances should they be made without including a statement of their limitations.

Creation of Business. An appraiser should not be charged with the creation or rejection of business which directly relates to his appraisal. His responsibility is accurately to value a given property at the request of a client or an employer, and is not to create or reject such business.

Over- or Under-Valuation. There is no virtue in either over or under valuation. Either may damage parties at interest in purchases, sales, rentals, financing, taxation, or condemnation. They prevent agreement between independently made appraisals, thus discrediting them all.

An over-valuation invites over-capitalization. Under-valuation prevents an accurate determination of the safety factor.

Joint and Independent Appraisals. Appraisers who ordinarily are independent of each other may be retained to make a joint appraisal. Under such conditions the report submitted should reflect an agreed upon result and it is unethical to make separate reports. In case of failure to agree, the dissenting opinions should be separately stated and identified but be made parts of a single report.

Appraisers who have been retained to make independent appraisals of a property may not collaborate or consult with one another with reference to their opinions of the findings. It is considered better practice to gather the basic facts independently, but such information may be exchanged provided it is requested by the client and this fact is set forth in the report.

Remuneration. An appraiser acts in an important professional capacity and should therefore receive a remuneration appropriate to the responsibility involved and to the training and experience necessary to qualify himself as an appraiser.

Certificate. In keeping with the highest ethical standards, every appraisal should be accompanied by an appraisal certificate which

---

*The report of the Sub-Committee on Appraisals, National Joint Committee on Rural Credits.

Committee members and the organizations they represent: C. G. Worsham and H. D. Thomas, Life Insurance Farm Conference; P. L. Gaddis and C. E. Maxwell, Federal Land Banks; C. W. Weldon, Joint Stock Land Banks; J. T. Sanders and H. C. M. Case, American Farm Economic Association; Conrad Hammar and Dick Voorhees, American Farm Bureau Federation; E. A. Eckert, National Grange; C. H. Everett and Hudson Burr (Chairman), American Society of Farm Managers; and D. Howard Doan (General Chairman), National Joint Committee on Rural Credits.

"This report represents the deliberations of the Committee in two meetings, on November 8th, 1933, and February 2nd, 1934, together with the suggestions of individuals whose opinions were solicited, in an effort to codify what is considered to be the best thought on rural appraisal practice at this time. It should, however, be considered only as a *preliminary report,* in order that future changes and suggestions may later be incorporated.—Hudson Burr, Chairman."

should include the following unless these are already included in the body of the report:

A. The scope of the appraisal, i. e., number of pages and paragraphs in the report.
B. An unequivocal and reasonably complete description of the property appraised.
C. The amount of the appraised value.
D. A statement definitely showing the period of years used as a basis for determining earnings, when they are a determining factor.
E. The date or time at which the value obtains.
F. A statement setting forth the amount of the special valuations if any are called for in the assignment.
G. A statement that the undersigned appraiser has no interest in the property appraised; or A statement disclosing all such interests which the undersigned appraiser may have in the property appraised.
H. A certificate paragraph substantially in the following form:

"I (We) the undersigned, do hereby certify that, to the best of my (our) knowledge and belief, the statements contained in this appraisal certificate, subject to the limiting conditions herein set forth, are correct; and that the opinions stated are based on full and fair consideration of all the pertinent facts available; also, that this appraisal has been made in conformity with Standard of Practice of ———."

Unethical Practices

Statement of Interest. It is unethical for an appraiser to have undisclosed pecuniary or other interests in the property or properties that he has been engaged to appraise.

Contingent Fees. It is unethical for an appraiser to accept an assignment to appraise a property, if his fee or employment is contingent upon his reporting a predetermined or specified amount of value, or is otherwise contingent upon any finding to be reported.

Commissions and Favors. It is unethical for an appraiser to accept extra commissions, or favors, in connection with the appraising of a property. His compensation must be limited to a fair professional fee for the responsibility entailed and the work and expense involved.

Hypothetical Appraisals. It is unethical for an appraiser to issue an appraisal report in which the reported value is based on the completion of public or private improvements which are not assured. It is proper, however, for him to comment in his report on proposed benefits or detriments and their possible effect.

Fractional Appraisals. It is unethical for an appraiser to knowingly participate in a fractional appraisal, the result of which would be different from an appraisal made of the whole. If an appraiser knowingly participates in a fractional appraisal this fact should be disclosed in his report.

Trial Appraisals. It is unethical for an appraiser knowingly to make a trial appraisal when the purpose of the trial is to discover the level of values he will set.

II. DEFINITIONS

Rural Appraisals. An appraisal is the definite written detailed opinon of a qualified individual or group of individuals of the basic value of a rural property.

Basic Value. Basic value is the worth of a property derived from such economic elements as earnings, location, and home uses.

Qualified Appraiser. A qualified appraiser is one who by education and experience has fitted himself to pass dependable judgments upon the value of rural properties. An organization of qualified individuals may make appraisals in the name of the organization.

Rural Property. Rural property is either real estate or personal property which has value or potential value for agricultural or other non-urban use.

Rural Real Estate. Rural real estate is agricultural and other non-urban land with all its fixed improvements. It does not include personal property but includes mineral, oil, timber, and riparian and water rights.

Improvements. Improvements of rural real estate consist only of items which are conveyed with the land as real estate such as Buildings, Fences, Windmills, Orchards, Vineyards, Permanent water and electric systems, and Riparian and water rights.

Earnings. Earnings constitute that portion of the total income derived from the typical use of a property which can be assigned as payment for its use.

III. PROCEDURE

1. Kinds of Valuations

In this discussion of appraisal practice and procedure, it is assumed that there is but one kind of appraisal and that the value determined thereby is known as the basic value.

The appraiser, however, is often commissioned to report on other kinds of value, which emphasize to a greater or less degree certain features of value. The more important special kinds of value include: Normal sale value, Forced sale value, Investment value, Speculative value, Condemnation value, Loan value, Assessed value.

The process by which these special values are arrived at is as follows:

The property is first appraised in the ordinary manner to arrive at the basic value.

There is then added to, or deducted from,

this value an amount which reflects the special features emphasized.

The resulting value is designated as the value for the special purpose required. The appraisal report should show the basic value, as well as the special values reported. This practice tends to clarify appraisal procedure and recognizes a common basis for all appraisals regardless of the purpose for which they are made. Since this method gives a common objective, it will tend to give appraisers a uniform method of approach and weighting of factors.

The following are the recognized factors which tend to qualify for special purposes, basic value.

Normal Sale Value. Valuation for normal sales is an opinion of the probably price at which within a reasonable time and under normal conditions, and with a substantial down payment, the property may be expected to change hands from a willing seller to a desirous informed purchaser.

Forced Sale Value. Valuation for a forced sale must necessarily emphasize present earnings of property whether typical or otherwise and present saleability of the property.

Investment Value. Investment value emphasizes security of principal and normal earnings.

Speculative Value. Valuation for speculative purposes gives major weight to probable future increases in earning power, mineral values, urban uses, irrigation, flood control, and drainage proposals.

Condemnation Value. Courts generally recognize that valuation for condemnation proceedings should be based on the highest and best use to which the property may be put. Therefore emphasis must be given to those factors which affect the property favorably and lesser weight to those which affect it adversely.

In establishing condemnation value an appraiser should acquaint himself with what the courts, having jurisdiction, have held in similar previous cases, and should set the value accordingly. It is recognized that in a condemnation value the function of the appraiser is to apply the principles of the law to the property in question.

Loan Value. Valuation for loan purposes is largely based on estimated amount and stability of earnings during the term of the loan. However, consideration is given to those factors which affect the saleability of the property.

Assessed Value. Valuation of rural property for taxing purposes especially emphasizes present earning power and places a minimum weight on potential earnings.

DETERMINATION OF EARNINGS

2. Sources of Data

The basic data for determining earnings are crop yields or rent, and ownership expenses. Accounting records or statements of occupants and other informed persons in the community are regarded as the most reliable. Also the appraiser should acquaint himself with the normal crop yields of the territory for types and grades of land and use this knowledge as a guide for determining yield. Taxes, normally the most important item of expense, should usually be determined from the public tax records.

3. Assumed Use and Operating Efficiency

The appraiser should ordinarily estimate earnings on the following assumptions:

A. That the property is used and operated in a manner typical for the community, regardless of use, and operation when appraised.

B. The following factors, however, may be given some weight:
Property in well established successfull operation even if such operation is not typical.
Where certain features of the farm assure the possibility of attracting superior type of operator.
Where the past handling of the property has been such that a downward trend in production is clearly indicated.
Community trends to either higher or lower uses.

C. The following factors are ordinarily given no weight:
Anticipated improvements in the property or changes to a higher and better use.
Possibility of attaining higher operating efficiency.

4. Prices of Products

Since it is impracticable or not properly the function of the appraiser, to determine what prices of farm products and consequently farm earnings are going to be in the future, the accepted practice is to use earnings in the past. It is imperative to use a period of years. The period should embrace a sufficient number of years to minimize the effects of extremely high or low prices and should be definitely stated in the appraisal report.

For the sake of uniformity some generally recognized period would be advantageous. Because of variations in the price level the most acceptable base would be one periodically modified rather than one set once and for all. Some governmental agency, the neutrality of whose position is not likely to be challenged, should establish such an earnings period and publish data and reasoning supporting the choice.

5. Reflection of Earnings in Value

Earnings are reflected in value by capitalizing them at a rate of return which in the opinion of the appraiser is proper in view of con-

ditions. The following factors affect the rate of capitalization:

Location. While location influences value directly it is also recognized in the rate of capitalization, on the theory that owners are willing to accept a low rate of return in a desirable location, and expect a high rate in an undesirable location.

Interest Rates in the Community. The mortgage loan rate typical of the community, while not necessarily the rate to use, has an influence. Bank loan interest rates also have a bearing.

Hazardous Operations. Certain types of operation, such as fruit growing, irrigation, and dry land are considered especially hazardous and therefore, the capitalization rate is higher.

Supervisory Burden. The costs of supervision or management may be reflected in the capitalization rate or may be considered as a cost of operation and deducted in arriving at net income.

Tenure of Operation. This affects rate of capitalization of farm land to some extent although it must be recognized that the tenure of operation may change.

Capitalization on the net cash rent basis is relatively low since it is assumed that the owner of the land carries no risk of the operation of the land.

Capitalization on a net share rent basis is usually at a higher rate than that of cash rent since the owner assumes a share of the risk of the business approximately proportionate to his rental share of the products of the land.

Capitalization on the net farm income basis usually carries the highest rate since all risks of the business are assumed by the operator in arriving at net income. Whenever practicable the rental basis of capitalization is preferable to that of net income.

6. Influence of Location, Home Features, and Saleability

These three features are considered together because they are often interrelated. The major items entering into a consideration of each are enumerated.

Location

Distance from towns and shipping points.
Sizes and types of towns.
Marketing facilities available.
Kinds of roads.
Transportation facilities.
Proximity to nuisances.

Home Features

Kind of community.
Size and type of residence.
Scenic features.
Religious and educational facilities.

Saleability

Saleability as determined by home and community desirability has an important influence on basic value. Actual sale prices of properties should be considered as an indicator in determining value.

7. Taxation

The amount of taxes assessed against land are reflected in value, because as an item of expense they must be deducted from income before net earnings can be determined. Moreover, taxes are of such far reaching importance that appraisal reports should contain a discussion of them and their effect on value must be described. Some of the taxes ordinarily encountered are state, county and township, road, school, special improvements, such as roads, drainage and irrigation.

8. Improvements

Buildings. Cost of reproduction less observed depreciation will in most circumstances serve as an acceptable guide to the value of farm buildings. Where obsolescence is apparent further deduction from replacement cost should be made. For cost of reproduction less depreciation to serve as an index of the value of buildings these must fit or suit the farm. Over improved property should be discounted.

Fences. Fences should be evaluated in the same manner as buildings. However, they may ordinarily be disregarded as a special item of value, as their effect is encountered in the analysis of earnings. They should be enumerated and described in the report.

Wells, Artificial Lakes, Ponds, etc. The same principles enumerated in the case of buildings apply here also, save that these tend to partake more closely of the nature of land reconstructions rather than land fixtures. Their effect on value is, therefore, more nearly calculated in relation to their effect on earnings than in respect to their cost.

Orchards and Vineyards. In appraising land growing perennial crops such as nuts, fruits, vineyards, and certain vegetables in commercially adapted regions, the appraiser must recognize their cost and value but also he must recognize the hazards inherent in highly specialized crops, that success in their production is closely related to the individuality of the owner, and that the rate of depreciation should be carefully considered in view of possible and rapid deterioration following neglect or insufficient care.

9. Factors Not Reflected in Value

There are a number of factors in connection with rural property which do not always affect the value of the property, but which the appraiser should observe and report. The most conscientious appraising calls for reporting any situations observed in the course of making the appraisal, which in the judgment of the appraiser would be of interest to his client or employer.

The following are a few such factors frequently encountered:

Personal history of operator or owner
Contemplated community and road improvements
Recreational facilities or possibilities of development
Management details

10. Constructing Reports

The form of the report varies with the desires of the appraiser and the degree of simplicity or elaboration required by the client or employer. It is the purpose of this article to emphasize those items considered essential in all reports.

Map. A map or plat is essential as it aids the reader of an appraisal report to visualize the property. It need not have the accuracy of a survey, but should be drawn to a definite scale and should show reasonably well the following:

The outline of the property
Location of buildings, fences, streams, roads, etc.
Kinds of land on various portions of the property.

Standard or easily identified legends and characters should be used.

Description. Legal description. This should be accurate and complete.

Physical Features of Property. These should be conveniently classified preferably in outline form and shown in plat when possible.

Calculation of Value. The accumulation of the major items entering into the final appraised value should be shown.

The number of acres and value per acre of each class of land making sub-totals. It is optional whether the appraiser shows the amount determined by capitalizing earnings and an adjustment for location and other factors, or whether the result of the two is shown as a single item.

A total value of land which is the sum of the values of the various classes.

An addition to value of land for improvements, i. e., buildings and other items valued separately. The amount added for improvements is not necessarily the appraised value of the improvements. It may be adjusted to conform with what is justifiable for the property.

Adjustment of total appraised value as above calculated to determine any special value called for in the assignment.

Certificate. The certificate should have a prominent place in the report. It should be placed, if possible, so that it cannot be detached from the other main parts of the report.

General. The report should include:

Name by which property is identified.
Name of party for whom appraisal is made.
Name of appraiser.
Address of property.

♣ ♣ ♣

Digest of the Minutes

Meeting of Governing Council American Institute of Real Estate Appraisers

The Governing Council convened at a meeting in Dining Room A of the Biltmore Club, Coral Gables, Florida, Jan. 17, 1934, at 2:00 P. M., the following members being present:

Harry E. Gilbert, Baltimore, Md., Acting Chairman.

Maurice F. Reidy, Worcester, Mass.

J. Alvin Register, Jacksonville, Fla.

Cyril R. DeMara, Hamilton, Ont., Can.

Mark Levy, Chicago, Ill.

Arthur C. Houghton, Washington, D. C.

Harry Grant Atkinson, Director of Activities, was also present.

Minutes of Meeting Held Nov. 21, 1933

Upon motion made by Mr. Reidy, seconded and carried, the reading of the Minutes of the meeting held on November 21, 1933, was waived.

Membership Report

The following membership report was submitted and approved:

1. Number of Members, Dec. 31, 1933.... 262
2. Number of Affiliates, Dec. 31, 1933.... 181
2. Delinquents:
   A. There were no delinquent Members in the Member Grade on Dec. 31, 1933.
   B. Twenty-nine Affiliates having been delinquent for more than 90 days, were dropped from membership by official vote of the Council.

Resignations

The resignations of Members Frank B. McKibbin, Indianapolis, Ind.; Charles G. Fleetwood, Winston Salem, N. C., and Harrison S. Colburn, New York City, were presented and accepted by unanimous vote, subject to the return to the Institute of membership certificates and emblem pins.

The resignations of Affiliates H. J. Brachman, Detroit, Mich.; William B. Maddock, Trenton, N. J., and C. Percy Willcox, Philadelphia, Pa., were presented and accepted by unanimous vote.

Appointment to Disciplinary Committee

It was moved, seconded, and unanimously carried that W. H. Ballard of Boston, Mass., be appointed to fill the vacancy on the Disciplinary Committee caused by the resignation of Harrison S. Colburn.

Financial Report

The following financial report was read and upon motion duly made and seconded was unanimously approved:

Receipts to December 31, 1933

1. 1933 Membership dues	$ 3,724.23
2. Examination fees	580.00
3. Dues placed on deposit on behalf of candidates	1,564.58
4. Revenue from sale of services and books	7.08
5. Revenue from sale of standard forms	18.00
6. Revenue from sale of emblems	10.00
7. Pro-rata share of miscellaneous income—interest, sale of annals, etc.	6.58
8. Revenue from subscriptions and sale of "Journals"	2,329.00
9. Revenue from professional cards	180.00
Total receipts	$ 8,419.47
Surplus 1/1/33	2,966.13
	$11,385.60

Expenses to December 31, 1933

1. Refunds on dues	$ 20.00
2. Examination fee a/c—certificates, emblems, postage on client letters	277.77
3. Dues on deposit a/c refunds and transfers to dues and "Journal" a/cs	1,319.58
4. Planographed services	53.00
5. "Journal" a/c—printing of "Journals," postage in mailing, wrappers, subscription forms, etc.	3,854.80
6. Miscellaneous travel	40.00
7. General postage	91.13
8. Miscellaneous printing—stationery, application forms, etc.	477.90
9. Rent	532.86
10. Salaries and general administrative expense	3,613.51
Total expenses	$10,280.55
Actual bank balance	1,105.05
Funds on deposit	245.00
Available cash	$ 860.05

Budget for 1934

The following budget for 1934 was approved, subject to income:

Estimated Income in 1934

1. Dues, 400 Members at $20.00	$ 8,000.00
2. Dues, 200 Affiliates at $10.00	2,000.00
3. Subscriptions to "Appraisal Journal"	2,500.00
4. Examination fees, 100 at $5.00	500.00
5. Surplus as of 1/1/34	860.05
Total estimated income	$13,860.05

Estimated Expenses in 1934

1. Salaries and Rent	$ 2,550.00
2. Publication of "Journals"	3,000.00
3. Membership certificates	150.00
4. Emblem pins	250.00
5. General printing and miscellaneous	7,910.05
Total estimated expenses	$13,860.05

The Divisional budget for 1934 contemplates that one-third of Miss Conroy's and one-third of Mr. Atkinson's salaries will be paid from the General or Convention funds. It is estimated that all of the divisions will have a total membership of 1,650 and that salaries and rent will be pro-rated to the Divisions and Institutes in accordance with this estimate. The salary and rent factor, therefore, is $4.25.

Report of Publications Committee

The following report of the Publications Commitee was accepted by unanimous vote:

1. Subscriptions as of December 31, 1933:

A. Member subscribers	262
B. Affiliate subscribers	181
C. Non-member subscribers	146
Total	589

2. Costs in 1933:

A. Copyrighting	$ 6.00
B. Postage and mailing	358.80
C. Printing	3,189.00
D. Wrappers	57.25
E. Circulars and subscription blanks	157.25
F. Letterheads for special mailing re Oct. issue	46.50
G. Refunds and N.S.F.'s	40.00
Total costs	$3,854.80

3. Income from sale of subscriptions and single copies $2,509.00
4. Deficit as of December 31, 1933 .... $1,345.80
5. Recommendations:

The Publications Committee earnestly recommends that each Member of the Institute be officially invited to participate in a short but intensive subscription campaign during the month of February or the month of March for the purpose of securing the enrollment of 1,000 non-member subscribers. The logical prospects who should be reached include:

A. Members of Appraisal Committees of Real Estate Boards.
B. H. O. L. C. Appraisers.
C. County Assessors.
D. Secretaries of Building and Loan Associations.
E. Farm Land Appraisers employed by Federal lending agencies.

The Committee believes that the "Journal" is one of the most valuable assets the Institute has and that each Member will benefit through the possibilities for developing new business as well as in enhanced prestige by enlarging the number of non-member subscribers. For this reason we feel that the earnest personal co-operation of each Member in a subscription campaign should be officially requested.

6. Professional cards—following the authorization of professional cards in the "Journal" by the Governing Council on November 21st, an announcement was made to all Members. Six Members responded, ordering four insertions of their professional cards and sending checks to cover. Fourteen additional orders are required to fill a page. The Publication Commitee will appreciate any help that Members of the Council can give in making this page a reality.

It was moved, seconded, and unanimously carried that the personnel of the Publication Committee be increased by the Chairman, as he may think advisable.

Report of Admissions Committee

Harry E. Gilbert, Acting Chairman of the Admissions Committee, recommended that the following candidates be elected to the Member grade:

1. Charles T. Lincoln, New Haven, Conn.
2. John J. Wagner, Cedar Rapids, Iowa.
3. Rolla E. Stephens, Joplin, Mo.

Upon motion, duly made, seconded, and unanimously carried, the above named candidates were elected to the Member grade.

Report of Committee on Consolidated Appraisals

A. C. Houghton, Chairman of the Committee on Consolidated Appraisals, reported that the work of his Committee is progressing and that he will make a formal report to the Governing Council following the meeting to be held in the National Chamber of Commerce Building in Washington, D. C., on February 8, 1934.

Report of Membership Committee

The following report from Bracton Goldstone, Chairman of the Membership Commitee, was read and unanimously approved:

"To the Board of Governors, American Institute of Real Estate Appraisers, Miami Biltmore Hotel, Coral Gables, Fla. Gentlemen: Owing to the fact that I submitted a lengthy and detailed report a few weeks ago, there is nothing further that I can report at this time. It is my intention to be in Chicago some time during the Spring, and I shall discuss with Mr. Atkinson the matter of increasing our membership by the admission of candidates from cities in which we are not yet represented. The amendments to the By-Laws made at the last meeting of the Board of Governors is materially helping to increase our membership, especially here in New York City, where we have several new applications."

Adjournment

The meeting adjourned at 5:00 P. M.

Book Reviews

Hoyt, Homer. ONE HUNDRED YEARS OF LAND VALUES IN CHICAGO. Chicago: University of Chicago Press, 1933. 519 p. $5.00.

The public at large already know of this book through the series of display advertisements sponsored by the Chicago Title & Trust Company that have been running in the Chicago papers presenting factual data with respect to Chicago real estate over a period of 100 years, emphasizing the constant upward stabilized level of Chicago real estate values. The author, Mr. Homer Hoyt, statistician and former professor of economics, spent eight years of laborious research into Chicago real estate history to present it. It is not a dry statistical tome but a thoroughly entertaining book with a masterful presentation of Chicago's growth from 1833, when the present loop district was contemptuously dismissed with—"I wouldn't give a six pence an acre for the whole of it" to its present dominance and grandeur.

The easiest method to compass the scope of his work is to follow the chapter headings: To begin with "the Canal Land Boom 1830-42"—"the Land Boom of the Railroad Era 1843-62"—then "the Land Boom that followed a Panic"—"Civil War and the Great Fire of 1863-77," followed by "the Land Boom of the First Skyscraper and the World's Fair 1878-93," and then "the Land Boom of the New Era that followed a World's War 1898-33." The latter half of his work is an analysis of the relation of the growth of Chicago to the rise of its land values. In this half numerous statistical tables, maps, and diagrams offers the student unusual data for developing much saner thoughts on the ultimate value of Chicago Real Estate.

I opine that the near future will see this book used as a standard text book in all real estate classes in Chicago. The first section having to do with the relation of the growth of Chicago to its rise in land values when submitted to class work, with suitable field excursions will permit the demonstration of certain influences that definitely point out the trend of land values, and our future operators or brokers will be able to reach a decision as to future worth with much greater certainty than existing teachings have offered.

One need not expect to find in this section land values rising with the uniform precision of compound interest tables, in fact among the interesting examples are shown that in 1856 land values on State Street near Roosevelt Road were as high as they are today, and as late as 1885 Thirty-first and Indiana was the highest price business property outside of the central district, and many central district holdings are today no higher than they were in 1896. The examples, the quotations from the daily papers and the Economist, the copious foot-notes and comments of the various investors and subdividers of the day, making all these transactions so vivid and interesting to the reader, are possible only because of Mr. Hoyt's study, including an examination of real estate and historical entries in more than 22,000 newspapers, his access to the Chicago Title & Trust Company's records and personal interviews with old settlers, brokers, and others.

The second section of his book deals with the broad sweep of these forces through the 100 year period—here qualitative differences are discarded and the quantitative measurement of the various factors are stressed. The survey traces and charts the course of land values in each section and for the entire city as affected by busines conditions and because of the exhaustiveness and accuracy of the work, the results are of major importance to everyone interested in real estate.

The section having to do with the Chicago Real Estate Cycle is based on the composite effects of a cyclical movement of a series of forces that are to a certain degree independent and yet communicate impulses to each other, Mr. Hoyt uses population growth, rent levels, operating costs, cost of new construction of land values, and of subdivision activity as the major movements, and with unusual thoroughness this data has been used to measure the degree of fluctuations and the interval during the past 100 years. Five major cycles stand out in clear relief, all starting with a sharp rise in population, quickening building activity, and then an active speculation in land with quickly mounting prices (100 to 1,000%) in a few years and then the slump. The decline in rents—the increase in foreclosures, the ceasing of building operations—the inability to negotiate sales or obtain mortgages—all these depressing movements that seem a new phenomenon to us happened before with the same cruel effect, always thereafter, usually between twenty to thirty years, real estate values again came into their own.

While Mr. Hoyt points out that the long and uncertain duration of the cycle makes practical application of its working rules difficult (there being but two or three years in every twenty or thirty-year period when technique and dexterity can profitably function full time), no one dealing in Chicago Real Estate can afford to be without this book—not only to have as a storehouse of authentic usable information concerning Chicago Real Estate, but as a guide to temper one's own opinion as to its value, both in boom and depression periods. By all means add this book to your library.

George Robt. Quin, M.A.I.

Chicago, Illinois, January 6, 1934.

Wray, Charles Henry. REAL ESTATE SUBDIVIDING IN NEW JERSEY WITH SPECIAL REFERENCE TO MIDDLESEX COUNTY. New Brunswick, N. J. Bureau of Economic and Business Research, Rutgers University, 1932. 178 p. $2.00.

"Real Estate Subdividing in New Jersey" was prepared by the Bureau of Economic and Business Research of Rutgers University with the coöperation of a number of real estate dealers in the State. It is composed of 41 pages of text, followed by 137 pages of appendix consisting of tables, letters from real estate dealers and officials of real estate boards in New Jersey, and extracts from the laws of New Jersey and California regulating the real estate business.

The data presented consist of the number of plats filed in Middlesex County and the number of lots in those plats from year to year since 1900, together with the number of buildings which have been erected on those plats to date. There are also included some data given by real estate dealers and officials of real estate boards in response to a questionnaire. These data are incomplete and quite unsatisfactory.

The data regarding subdividing in Middlesex County and subsequent building presents another addition to the accumulating materials regarding the excesses to which subdividing has been practiced in the past. This is valuable material.

The study is somewhat disappointing in not giving more light on the question of success of subdivisions. The point of view toward success is that of subsequent building on the plat, but no intimation is given as to what might reasonably be considered a satisfactory ratio of developed or built-on lots to the total number of lots in the subdivision. One might be inclined to criticize the purported statistical and mathematical accuracy which is sought for in some connections (see page 11 for example). But on the whole the study is a valuable one.

Ernest M. Fisher
Professor of Real Estate
School of Business Administration
University of Michigan.

Ann Arbor, Michigan, January, 1934.

Foreman, Clarence A. RENT LIENS AND PUBLIC WELFARE. New York: Macmillan Company, 1932. 207 p. $2.00.

The book is a scholarly exposition telling of the gradual abandonment of common law principles in certain states as common law originally applied to this problem of rent liens. The author traces step by step, case by case, the new interpretations found by the courts and the development of statutes as they affected old common law usage.

He argues that the rule of reason was contained fundamentally in the old English common law.

When he states that the courts "need to reinstate the ancient principle of free competition, free prices, and free markets," he is certainly advocating a change in the tendency of governmental and economic affairs as they are today.

However, the author believes that today "one lives in a state of organized dishonesty." He believes through rent liens as they are today developed by legal interpretations that "the rights of property owners have been constantly encroaching upon the freedom of trade."

What rights should the landlord have by virtue of his rent lien alone, that may be regarded as superior to those of other creditors?

In some states, especially those where crops form a great part of the industry, the landlord has been given by statute law and by what the author characterizes as distortions of the old common law, greater rights than he should have. To the real estate operator it may seem that in purely industrial states where commerce in the form of retail trade as well as manufacturing comprise nearly all the sum total of economic activity, that the landlord has less rights than he should have in rent lien. This has been proved so many times in recent years.

Failure of lessees has placed the entire burden on the landlord for the unexpired term of the lease and he is not even considered as a creditor for that important item.

It would seem that the author's criticism might apply with more justice to the non-industrial states.

In certain cases which he quotes, a good faith purchaser has been made liable to the landlord for damages to the amount of a rent claim where this purchaser bought some of the assets of a tenant in default of his rent.

Professor Foreman's argument is that freedom of commerce has been obstructed in many cases by judicial constructive interpretation and that "there has appeared a constant inclination on the part of the courts in general to strengthen the landlord's rent lien."

There is clearly at times a conflict between the rights of an injured landlord and a purchaser of assets of the defaulting tenant.

The author complains that in the process of time court decisions and statutes have favored the landlord.

The subject is one that is hardly vital to the average owner or dealer in real estate but it is impossible to read this book without having vast respect for the patient research and the scholarship evidenced in its composition.

Maurice F. Reidy, M.A.I.

Worcester, Mass., February 24, 1934.

Current Articles

The full names of the magazines indicated by initials on these pages are given below:

J. L. E.	Journal of Land and Public Utility Economics	Quarterly
N. R. E. J.	National Real Estate Journal	Monthly
R. & B. G.	Real Estate Record and Builders Guide	Weekly
R. E.	Real Estate	Weekly
S. B. J.	Savings Bank Journal	Monthly
S. M.	Skyscraper Management	Monthly

Copies of the magazines in which these articles appear may be secured from the Library of the National Association of Real Estate Boards, 59 E. Van Buren St., Chicago, Ill. The price listed includes the price of the magazine and a small service charge for mailing and postage. Subscriptions may also be placed with the National Association.

Apartment House Maintenance. E. E. BURKHARD and F. G. BOULON. N. R. E. J. February, 1934, p 33. $1.20. Operation of heating systems and equipment.

Apartment House Maintenance. E. E. BURKHARD and F. G. BOULON. N. R. E. J. December, 1934, p. 39. $1.20. A manual of detailed specifications for building employees on the operation, upkeep and repair of physical equipment

Apartment House Maintenance. E. E. BURKHARD and F. G. BOULON. N. R. E. J. January, 1934, p. 33. $1.20. Purchase and use of the more common types of fuel.

An Approach to the Problem of Construction Control. ROBERT E. SIMON. R. & B. G. February 10, 1934, p. 3. $0.70. An address before The Mortgage Conference of the City of New York on February 1, 1934.

Case Studies in Profitable and Profitless Alterations. JOHN W. HARRINGTON. R. & B. G. February 10, 1934, p. 6. $0.70. An interesting analysis of a popular subject.

Changes for Better and Worse. MILES L. COLEAN. R. E. February 17, 1934, p. 9. $0.30. The author predicts generally increasing values with decreases in many specific locations.

Ethics of Appraisals Defined at Last. S. B. J. February, 1934, p. 14. $0.55. American Institute of Real Estate Appraisers informs lending officers of what they may require.

Four Buildings Give Good News. ARTHUR KRUGGEL. R. E. January 13, 1934, p. 12. $0.30. Four year study of revenue and expense items of four typical buildings indicate that the corner has been turned and that rents are on the way to normal.

How the HOLC Is Valuing Homes. PHILIP W. KNISKERN. N. R. E. J. January, 1934, p. 21. $1.20. Realtor-Institute assists in working out new system of appaising and of selecting appraisers.

January Survey Shows 27.57% Average Office Vacancy. GEORGE W. KLEIN and LEO G. VARTY. S. M. February, 1934, p. 8. $0.45. The vacancy figure for October 1, 1933, was 26.91%.

Population and building construction. FRANK J. HALLAUER. J. L. E. February, 1934, p. 35. $1.45. The primary purpose of this paper is to point out the importance of replacement as an index to our future construction volume.

The Present Status of the Office Building Industry. EARLE SHULTZ. S. M. February, 1934, p. 5. $0.45. A statement prepared for Deputy Administrator W. A. Janssen of the N.R.A.

Relation of Land Costs to Rentals in Housing Projects. NORBERT BROWN. R. & B. G. February 17, 1934, p. 3. $0.70. Based on the experience of the limited dividend corporation projects in New York City.

Rent Fixing with Rime and Reason. DAYTON KEITH. R. E. February 17, 1934, p. 15. $0.30. When knowledge replaces guess work a more profitable level will be attained.

♣ ♣ ♣

New Members

At the Regular Quarterly Meeting of the Governing Council, held in Coral Gables, Fla., on January 17, 1934, the following were elected to the grade of Member in the American Institute of Real Appraisers:

J. EARL MILLER, GENEVA, OHIO. Born in Bucyrus, Ohio; Active Member, Ashtabula County Real Estate Board; Non-Resident Member, Cleveland Real Estate Board; engaged in general real estate business including farm management and suburban farm developments; professional territory covers appraisal of farms in Ohio and Middle West Central States; Past Chairman, Farm Lands & Country Estates Division; Chairman, Appraisal Committee, National Institute of Farm Brokers & Managers; 16 years' experience in the appraising of real property; has appraised properties for Life Insurance Companies, Federal Land Banks, Joint Stock Land Banks, Probate Courts, Municipal, State, and Federal Governments, etc.; elected to Membership in A. I. R. E. A. as a Specialist in Farm Land Appraising.

JOHN J. WAGNER, CEDAR RAPIDS, IOWA. Born in Harlan, Kansas; Active Member, Cedar Rapids Real Estate Board; professional territory covers the State of Iowa; Lecturer on real estate in the State University of Iowa; 20 years' experience in the appraising of real estate; former Director, National Association of Real Estate Boards.

ROLLA E. STEPHENS, JOPLIN, MISSOURI. Born in Joplin, Mo.; Member of the firm, Roy E. Stephens Agency, Senior Member, Real Estate Board of Joplin; professional territory covers the area within a radius of 100 miles of Joplin; Chairman, Appraisal Committee, Real Estate Board of Joplin; took 2-year course in the Wharton School of Commerce, University of Pennsylvania; 6 years' experience as employee of a bank and trust company; 9 years' experience in real estate appraising; appraisal experience includes valuation of industrial property, estates, hotel property, appraising for tax purposes, apartments, business properties, farms, mills, warehouses, residential property.

♣ ♣ ♣

Officers of Local Chapters

New Jersey Chapter Number 1

Acting President—John J. Berry, Newark, N. J.
Secretary—W. W. Chalmers, Camden, N. J.
Treasurer—John K. Leeds, Elizabeth, N. J.

Florida Chapter Number 2

President—Charles P. Glover, Tampa, Fla.
Vice-President—D. Earl Wilson, Miami, Fla.
Secretary—Hollis Bush, Miami, Fla.
Treasurer—C. W. Rex, Orlando, Fla.

Ohio Chapter Number 3

President—E. L. Ostendorf, Cleveland, Ohio.
Vice-President—John B. Spilker, Cincinnati, Ohio.
Secretary—Lewis R. Smith, Cincinnati, Ohio.
Treasurer—Howard W. Etchen, Toledo, Ohio.

New York Chapter Number 4

President—Bracton Goldstone, New York City, N. Y.
Vice-President—William F. MacDermott, Jamaica, L. I., N. Y.
Secretary-Treasurer — James F. Matthews, Brooklyn, N. Y.

California Chapter Number 5

President—J. Mortimer Clark, Long Beach, Calif.
Vice-President—Charles B. Shattuck, Los Angeles, Calif.
Secretary and Treasurer—Nathan Libott, Los Angeles, Calif.

Illinois Chapter Number 6

President—Mark Levy, Chicago, Ill.
Vice-President—Ralph V. Field, Galesburg, Ill.
Secretary—Kenneth Calhoun Brown, Chicago, Ill.
Treasurer—George Robert Quin, Chicago, Ill.

Officers and Committees,

American Institute of Real Estate Appraisers,

NATIONAL ASSOCIATION OF REAL ESTATE BOARDS

PHILIP W. KNISKERN.....President
101 Park Ave., New York, N. Y.
JOSEPH B. HALL.....Vice President
35 E. 7th St., Cincinnati, Ohio
HERBERT U. NELSON.....Secretary
59 E. Van Buren St., Chicago, Ill.
MARK LEVY .....Treasurer
7 South Dearborn St., Chicago, Ill.
HARRY GRANT ATKINSON.....
.....Director of Activities
59 E. Van Buren St., Chicago, Ill.

Governing Council

Term Expiring December 31, 1936
Harry E. Gilbert, Baltimore, Md.
Samuel C. Kane, Philadelphia, Pa.
Norman L. Newhall, Minneapolis, Minn.
E. L. Ostendorf, Cleveland, Ohio.
Fenwick B. Small, Brooklyn, N. Y.
Frank H. Taylor, East Orange, N. J.

Term Expiring December 31, 1935
Cyril R. DeMara, Hamilton, Ontario.
Peter Hanson, Glendale, California.
Philip W. Kniskern, New York City, N. Y.
Cuthbert E. Reeves, Buffalo, N. Y.
J. Alvin Register, Jacksonville, Florida.
Maurice F. Reidy, Worcester, Mass.

Term Expiring December 31, 1934
Ralph D. Baker, Camden, New Jersey.
J. W. Cree, Jr., Pittsburgh, Penn.
Joseph B. Hall, Cincinnati, Ohio.
Joseph W. Hannauer, St. Louis, Mo.
A. C. Houghton, Washington, D. C.
Mark Levy, Chicago, Illinois.

Representing Board of Directors, National Association of Real Estate Boards
Henry G. Zander, Chicago, Illinois.

Admissions Committee

Frank H. Taylor, East Orange, N. J., Chairman.
Harry E. Gilbert, Baltimore, Md.
Morris Goldfarb, Perth Amboy, N. J.
Joseph W. Hannauer, St. Louis, Mo.
Walter R. Kuehnle, Chicago, Ill.
Samuel C. Kane, Philadelphia, Pa.
Charles Partridge, Brooklyn, N. Y.
Walter S. Schmidt, Cincinnati, Ohio.

Committee on Appraisal Procedure

Joseph B. Hall, Cincinnati, Ohio, Chairman.
W. H. Ballard, Boston, Mass.
Ayers J. du Bois, Los Angeles, Calif.
Harry E. Gilbert, Baltimore, Md.
George H. Gray, Brooklyn, N. Y.
Frank D. Hall, New York, N. Y.
Walter R. Kuehnle, Chicago, Ill.
Carlton Schultz, Cleveland, Ohio.
Harry A. Taylor, East Orange, N. J.

Disciplinary Committee

Maurice F. Reidy, Worcester, Mass., Chairman.
William H. Ballard, Boston, Mass.
George H. Gray, Brooklyn, N. Y.
J. Kingsley Powell, Metuchen, N. J.

Ethics Committee

Ralph D. Baker, Camden, N. J., Chairman.
W. W. Butts, St. Louis, Mo.
W. E. Ferguson, Baltimore, Md.
Frank M. McCurdy, Brooklyn, N. Y.
Charles B. Shattuck, Los Angeles, Calif.

Legislation and Legal Committee

Peter Hanson, Glendale, Calif., Chairman.

Committee on Local Chapters

J. Alvin Register, Jacksonville, Fla., Chairman.
William W. Butts, St. Louis, Mo.
Morris Goldfarb, Perth Amboy, N. J.
Charles B. Shattuck, Los Angeles, Calif.

Membership Committee

Bracton Goldstone, New York, N. Y., Chairman.
John P. Hooker, Chicago, Ill.
Arthur S. Kirk, Des Moines, Iowa.
Frank McLaughlin, Toronto, Ont., Canada.
Stanley L. McMichael, Los Angeles, Calif.
Cuthbert E. Reeves, Buffalo, N. Y.
Maurice F. Reidy, Worcester, Mass.
D. Earl Wilson, Miami, Fla.

Publications Committee

Mark Levy, Chicago, Ill., Chairman.
Hollis Bush, Miami, Florida.
Ayers J. du Bois, Los Angeles, Calif.
John P. Hooker, Chicago, Ill.
Carlton Schultz, Cleveland, Ohio.

Research Committee

Joseph B. Hall, Cincinnati, Ohio, Chairman.

Committee on Revision of By-Laws

E. L. Ostendorf, Cleveland, Ohio, Chairman.

Statistics Committee

Joseph B. Hall, Cincinnati, Ohio, Chairman.

Committee on Valuation of Percentage Leases

Joel L. Schlesinger, Newark, N. J., Chairman.
Murray Apfelbaum, Newark, N. J.
Stephen F. Barrera, Brooklyn, N. Y.
Cyril R. DeMara, Hamilton, Ont.
A. C. Houghton, Washington, D. C.
Russell Price, Cincinnati, Ohio.
Maurice F. Reidy, Worcester, Mass

Roster of Members

American Institute of Real Estate Appraisers

The offices of the Institute announce with sincere regret: the death of Major Norman B. Comfort, M.A.I., Clayton, Missouri. Admitted July 1, 1932. Died January 27, 1934; and the death of Harrison S. Colburn, M.A.I., New York City, N. Y. Admitted July 1, 1932. Died March 9, 1934.

ALABAMA

Birmingham
JOHN D. CHICHESTER.....708 Jackson Bldg.
FRANK B. CLARK.....220 N. 21st St.
HILL FERGUSON, The Jemison Companies.....221 N. 21st St.
HAROLD M. HENDERSON.....2105 1st Ave.

CALIFORNIA

Berkeley
W. S. GUILFORD.....Federal Land Bank

Glendale
PETER HANSON .....520 Security Bldg.

Long Beach
J. MORTIMER CLARK, Clark & Maspero.....409 Security Bldg.
J. C. HOFFMAN.....307 F. & M. Bank Bldg.
A. G. MASPERO, Clark & Maspero.....409 Security Bldg.
T. F. MERRICK.....Heartwell Bldg.

Los Angeles
RALPH BRASHEAR.....4157 W. 5th St.
DAVID W. BUSH.....616 O. T. Johnson Bldg.
GEORGE H. COFFIN, JR.....408 Hollywood Sec. Bldg
AYERS J. DU BOIS.....7079 Hollywood Blvd.
ARTHUR L. LAYDEN, R. C. Mason & Co.....417 S. Norton Ave.
NATHAN H. LIBOTT.....6253 Hollywood Blvd.
STANLEY L. McMICHAEL..6785 Whitley Terr.
JOHN W. SALMON.....2912 Brighton Ave.
GEORGE L. SCHMUTZ.8703 Santa Monica Blvd.
CHARLES. B. SHATTUCK.2510 S. Vermont Ave.
IVAN A. THORSON.....500 Corporation Bldg.
FRED E. VINCENT.....3440 Winslow Drive

Oakland
JAMES G. STAFFORD.....5820 Presley Way

Sacramento
MARK CHEESMAN .....809 J. St.
A. J. DELANO.....819 J. St.

Southgate
LOUIS R. ARDOUIN.....2931 Willow Pl.

Wilmington
THOMAS FRANCIS MASON.....Box 122

CONNECTICUT

Hartford
JOSEPH P. KENNEDY.....720 Main St.

New Haven
CHARLES T. LINCOLN.....205 Church St.
HENRY MUSCH, JR.....9 Center St.
JOHN T. SLOAN.....129 Church St.

Stamford
RICHARD W. FITCH.....33 Bank St.

DISTRICT OF COLUMBIA

Washington
HAROLD E. DOYLE.....738 15th St.
JOSEPH A. HERBERT, JR.....1013 15th St., N. W.
A. C. HOUGHTON.....1516 H St., N. W.
MORTON J. LUCHS.....1505 H St., N. W.
R. MARBURY STAMP.....1421 H St., N. W.
CURTIS WALKER.....Tower Bldg.

FLORIDA

Fort Myers
HARRY J. WOOD.....1112 1st St.

Jacksonville
V. M. COVINGTON.....1316 Graham Bldg.
LOUIS R. FENDIG...2nd Floor, Buckman Bldg.
MYRON L. HOWARD....516 Professional Bldg.
RICHARD E. KNIGHT.....care of Home Owners' Loan Corp.
J. ALVIN REGISTER.....114 Graham Bldg.
BAINBRIDGE RICHARDSON.....117 W. Forsyth St.
WALTER D. SHELLY.....414 Greenleaf Bldg.
LAWRENCE H. TUCKER, JR.....319 W. Forsyth St.

Lakeland
JOHN L. WRIGHT.....117 S. Tennessee Ave.

Miami
HOLLIS BUSH.....711 Ingraham Bldg.
KENNETH S. KEYES, The Keyes Co., Inc....13 W. Flagler St.
ADRIAN McCUNE.....1017 Security Bldg.
D. EARL WILSON.....1017 Security Bldg.

Orlando
GEORGE F. BRASS.....Box 1052
HAROLD V. CONDICT.....Box 1052
G. JACKSON, JR.....Box 1658
C. W. REX.....Box 293
J. C. STEWART.....715 State Bank Bldg.

Sarasota
FRED L. PALMER.....482 Main St.

Tampa
CHARLES P. GLOVER.....221 E. Lafayette

Vero Beach
FRANK R. JEWETT.....P. O. Box Q

West Palm Beach
FRANK J. ANDERSON.....215 S. Olive St.

GEORGIA

Atlanta
BRYAN M. GRANT.....41 Forsyth St., N. W.
ROBERT R. OTIS.....37 Peachtree Arcade

ILLINOIS

Chicago
KENNETH CALHOUN BROWN.....110 S. Dearborn St.
HARRY S. CUTMORE.....38 S. Dearborn St.
JOHN P. HOOKER.....140 S. Dearborn St.
A. K. HORNOF.....1411 1st Natl. Bank Bldg.
WARD T. HUSTON.....110 S. Dearborn St.
WALTER R. KUEHNLE...2842 Eastwood Ave.
MARK LEVY .....7 S. Dearborn St.
ERNEST H. LYONS.....120 S. LaSalle St.
GEORGE ROBERT QUIN.....36 S. State St.
J. SOULE WARTERFIELD....8 S. Dearborn St.

Galesburg
RALPH V. FIELD..203 Bank of Galesburg Bldg.

Waukegan
OSCAR SODERQUIST .....22 Maple Ave.

INDIANA

Gary
CHARLES D. DAVIDSON.....504 Broadway
JAMES R. DAVIDSON.....504 Broadway

Hammond
GEORGE N. BECKER.....7407 Jackson Ave.
SAMUEL C. ENNIS.....1st Trust Bldg.

Indianapolis
GEORGE A. KUHN.....706 Guaranty Bldg.

IOWA

Cedar Rapids
JOHN S. WAGNER.....American Trust Bldg.

Des Moines
ARTHUR S. KIRK.....900 Grand Ave.

Sioux City
WILLARD L. FROST.....Security Bank Bldg.

KANSAS

Hutchinson
J. C. McNAGHTEN

LOUISIANA

Shreveport
T. S. NEAL.....330 Ricou-Brewster Bldg.

MARYLAND

Baltimore
OREGON MILTON DENNIS.....
.....New Amsterdam Bldg.
W. E. FERGUSON.....100 E. Pleasant St.
HARRY E. GILBERT.....2 E. Lexington St.
ALBERT C. HOFRICHTER...2 E. Lexington St.
CHARLES H. STEFFEY.....336 N. Charles St.

Bethesda
H. WENDELL FITZGERALD.....P. O. Box 53

MASSACHUSETTS

Boston
W. H. BALLARD.....45 Milk St.
EDWARD F. CASSELL.....18 Tremont St.
JAMES D. HENDERSON....209 Washington St.
NORMAN W. KENNY, C. W. Whittier & Bro.
.....82 Devonshire St.

Fall River
J. FREDERICK BECKETT.....49 Purchase St.
MYER MARKELL.....Granite Block
EVERETT N. SLADE, John P. Slade & Son..
.....57 N. Main St.

Lowell
JOHN C. PERCIVAL.....36 John St.

Worcester
MAURICE F. REIDY.....2 Foster St.

MICHIGAN

Grand Rapids
J. G. LLOYD ALEXANDER..616 Murray Bldg.
ISAAC R. BLANDFORD.3331 College Ave., N. E.
LEON T. CLOSTERHOUSE.....
.....American Home Security Bank
HARRY J. FULLER.....The Michigan Trust Co.
WALTER S. PALMER.104 Federal Square Bldg.
ARENT VAN STENSEL.....
.....1006 Grand Rapids Sav. Bank Bldg.
CHARLES H. WARDEN..425 Amer. Bank Bldg.

Pontiac
PAUL A. KERN.....First National Bank Bldg.

MINNESOTA

Minneapolis
NORMAN L. NEWHALL....519 Marquette Ave.
EDWIN L. SOMERVILLE.....
.....1478 N. W. Bank Bldg.

MISSOURI

Clayton
[1]NORMAN B. COMFORT.....18 N. Merrimac

Joplin
ROLLA E. STEPHENS.....711 Virginia Ave.

St Louis
W. C. BERNARD.....317 N. 11th St.
WILLIAM W. BUTTS.....803 Chestnut St.
CHARLES J. DALY.....801 Chestnut St.
OTTO J. DICKMANN.....623 Chestnut St.
CHESTER A. DOUGHERTY.....109 N. 7th St.
JOHN H. FARISH.....713 Chestnut St.
JOSEPH W. HANNAUER.....811 Chestnut St.
MONROE H. RODEMYER..40 Washington Terr.
N. S. WOOD.....706 Chestnut St.

[1]Deceased January 27, 1934.

NEBRASKA

Omaha
C. D. GLOVER.....1221 City National Bank
LEWIS C. SHOLES.....305 Paterson Bldg.
CLINTON B. STUHT.....Aquila Court Bldg.

NEW JERSEY

Butler
FRANK B. FAY, JR.....Fayson Lake

Camden
RALPH D. BAKER.....924 Broadway
W. W. CHALMERS.....4th and Federal Sts.
WAYLAND P. CRAMER.....525 Cooper St.
J. WILLIAM MARKEIM...4th and Federal Sts.
ABRAHAM J. ROSENFELD.....207 N. 6th St.
PHILIP ZINMAN.....333 Arch St.

East Orange
FRANK H. TAYLOR.....520 Main St.
HARRY A. TAYLOR.....520 Main St.

Elizabeth
JOHN K. LEEDS.....10 Westfield Ave.
B. B. MILLER.....215 Broad St.
BURTON THOMPSON.....18 W. Jersey
MAX TIEGER.....207 Broad St.

Hackensack
ISIDORO QUINTANA.....Court House Square

Jersey City
GEORGE E. DUGAN.....345 Central Ave.
PERCY A. GADDIS...Room 300, 30 Journal Sq.
D. E. C. SOMERS.....700 Bergen Ave.

Linden
JOHN FEDOR.....540 S. Wood Ave.

Metuchen
J. K. POWELL.....Main and Middlesey

Newark
MURRAY APFELBAUM.....786 Broad St
JOHN J. BERRY.....930 Broad St.
JOS. L. FEIBLEMAN.....17-19 William St.
FRANKLIN HANNOCH, Fiedler Corp.....
.....14 Park Pl.
LOUIS HERMAN.....60 Park Pl.
JOHN A. LINNETT.....29 Elizabeth St.
E. J. MAIER.....988 Broad St.
JOEL L. SCHLESINGER.....31 Clinton St.
HARRY J. STEVENS.....478 Central Ave.

New Brunswick
JAS. A. O'CONNELL.....392 George St.

Perth Amboy
MORRIS GOLDFARB.....279 Madison Ave.

Ridgewood
SAMUEL S. WALSTRUM

Rutherford
CHARLES A. VAN WINKLE..1 & 2 Station Sq.
THEODORE VAN WINKLE..1 & 2 Station Sq.

NEW YORK

Brooklyn
STEPHEN F. BARRERA.....191 Joralemon St.
GEORGE BAUR.....2609 Clarendon Rd.
JAMES B. FISHER.....160 Remsen St.
GEORGE H. GRAY.....310 Ashland Pl.
BERNARD F. HOGAN.....431 Fifth Ave.
ARTHUR J. HORTON.....1214 Flatbush Ave.
GEORGE S. HORTON.....59 Lafayette Ave.
FRANK M. McCURDY.....158 Remsen St.
JAMES F. MATTHEWS.....215 Montague St.
M. C. O'BRIEN.....798 Nostrand Ave.
CHARLES PARTRIDGE.....397 Flatbush Ave.
LEWIS H. POUNDS.....32 Court St.
FENWICK B. SMALL.....1124 Myrtle Ave.
R. W. WALDEN.....162 Remsen St.

Buffalo
A. P. ALLINGHAM.....63 Niagara St.
PERCIVAL V. BOWEN.....1006 Ellicott Sq.
WALTER W. COHN.....155 Pearl St.
CUTHBERT E. REEVES..2202 Liberty Bk. Bldg.

Jamaica, L. I.
WM. F. MacDERMOTT.....89-70 162nd St.
GRANVILLE H. ROME....160-09 Jamaica Ave.

Mechanicville
FRANZ H. MOAK.....37 N. Main St.

Mount Vernon
ROBERT A. ANDERSON.....34 E. 1st St.
EDWARD H. HUFNAGEL.....28 E. 1st St.

New York City
[1]HARRISON S. COLBURN.....30 Church St.
A. N. GITTERMAN.....45 E. 49th St.
BRACTON GOLDSTONE.....22 E. 40th St.
FRANK D. HALL.....393 Seventh Ave.
ROBERT HUNTLEY.....67 Liberty St.
PHILIP W. KNISKERN.....101 Park Ave.
IRVING I. ROSENBAUM.....384 Broadway

Rochester
ABRAHAM BERGHASH....130 Clinton Ave., S.

Scarsdale
S. L. ANGELL.....30 E. Parkway

Yonkers
EDWARD C. HEALD.....20 S. Broadway
PAUL WEGENER.....2 Hudson St.

NORTH CAROLINA

Charlotte
S. T. HENDERSON.....111 Hermitage Road

Winston Salem
C. S. NOBLE.....674 Manly St.

OHIO

Akron
CLAUDE L. BAKER.....1185 Brown St.
JOHN C. KYLE.....520 S. Firestone Blvd.
W. F. VOGES.....1109 S. Main St.

Alliance
L. D. SCRANTON.....341 E. Main St.

Canton
MARK HAMBLETON.....417 Mellett Bldg.
WILLIAM J. UEBELHART...301 Mellett Bldg.

Cincinnati
HOWARD R. BURGESS.....104 Neave Bldg.
FRED DROEGE, JR.....104 Neave Bldg.
JAMES W. FARRELL.....1142 Herschel Ave.
JOHN H. FREY.....1334 Herschel Ave.
JAMES J. GROGAN..S. W. Cor. 5th & Main Sts.
JOSEPH B. HALL.....37 E. 7th St.
ALBERT J. MAYER...1010 1st Nat. Bank Bldg.
P. LINCOLN MITCHELL.....
.....S. W. Cor. 5th & Main Sts.
RUSSELL PRICE....S. W. Cor. 5th & Main Sts.
WALTER S. SCHMIDT.....
.....S. W. Cor. 5th & Main Sts.
LEWIS R. SMITH.....409 American Bldg.
JOHN B. SPILKER.....104 Neave Bldg.

Cleveland
BEN B. BEYER.....1425 Williamson Bldg.
JOSEPH J. HAAS.....200 Marshall Bldg.
JOSEPH LARONGE.....600 Union Trust Bldg.
WARREN L. MORRIS...420 Natl. City Bk. Bldg.
E. L. OSTENDORF.....1105 Chester Ave.
CARLTON SCHULTZ.....1223 Schofield Bldg.
ALEXANDER S. TAYLOR.....
.....1930 Union Trust Bldg.
V. C. TAYLOR, II.....1930 Union Trust Bldg.

Geneva
J. E. MILLER.....Miller Bldg.

Lakewood
TALMAGE D. AUBLE.....15509 Madison Ave.

Springfield
HARRY S. KISSELL..927 First Natl. Bk. Bldg.

Toledo
CLAUDE A. CAMPBELL...707 Ohio Bank Bldg.
GEORGE P. CROSBY.....609 Madison Ave.
HOWARD ETCHEN.....725 Adams St.

PENNSYLVANIA

Bethlehem
WILLIAM C. BADER.....Odd Fellows Bldg.

[1]Deceased March 9, 1934.

Harrisburg
EVAN J. MILLER.....213 Locust St.

Lancaster
HARRY W. BUTTS.....24 E. Orange St.

Lansdowne
W. RAYMOND EVANS...19 N. Lansdowne Ave.

Philadelphia
PHILIP N. ARNOLD.....1324 Walnut St.
BOYD T. BARNARD.....123 S. Broad St.
E. L. CARLSON, The Fidelity Mutual Life Ins. Co. .....The Parkway at Fairmount Ave.
C. HARRIS COLEHOWER.....5942 Chestnut St.
SAMUEL T. HALL.....1500 Locust St.
C. HARRY JOHNSON.....1307 Packard Bldg.
SAMUEL C. KANE.....511 Land Title Bldg.
S. CRAIG KANE, JR.....511 Land Title Bldg.
WILLIAM I. MIRKIL.....1500 Walnut St.
ROBERT J. NASH.....1214 Locus St.
RICHARD J. SELTZER.....15th & Locust Sts.
J. WILLISON SMITH.....100 S. Broad St.
MARTIN STOTZ.....516 Land Title Bldg.
AMBROSE J. WINDER.....1420 Walnut St.

Pittsburgh
J. W. CREE, JR.....211 Fourth Ave.

Wilkes-Barre
C. A. LEIGHTON..702 Deposit & Sav. Bk. Bldg.
EDWARD L. LEWITH....428 Miners Bk. Bldg.

RHODE ISLAND

Providence
HAL FORRESTER COOMBS..211 Waterman St.
JAMES DEVINE...801 New Industrial Tr. Bldg.

TENNESSEE

Nashville
J. W. DENIS.....209 Warner Bldg.
J. W. GRAHAM.....411 Nichol Bldg.

UTAH

Salt Lake City
EDWARD M. ASHTON.....32 S. Main St.

VIRGINIA

Richmond
JOHN W. BATES.....723 E. Main St.
HENRY S. RAAB.....710 E. Main St.
JOHN SLOAN.....18 N. 8th St.
J. GUTHRIE SMITH.....924 E. Main St.
MORTON G. THALHIMER....1013 E. Main St.

WASHINGTON

Walla Walla
C. C. CONNER.....1st Natl. Bank Bldg.

WEST VIRGINIA

Bluefield
S. W. FLORENCE.....309 Peery Bldg.

Charleston
CHARLES UHRIG.....
.....Box 1019, Charleston Natl. Bank Bldg.

WISCONSIN

Madison
HENRY H. BUSH, Stanley C. Hanks Co.....
.....311 State St.

Milwaukee
K. LEE HYDER.....525 E. Michigan St.

CANADA

Hamilton, Ontario
CYRIL R. DEMARA..405 Bank of Commerce Bldg.

London, Ontario
BERT WEIR.....156½ Dundas St.

Toronto, Ontario
FRANK McLAUGHLIN.....34 King St., West

Resignations

FRANK B. McKIBBIN.....129 E. Market St., Indianapolis, Ind.
CHARLES G. FLEETWOOD.....513 Reynolds Bldg., Winston Salem, N. C.